Distr.
GENERAL

UNCTAD/COM/48
9 December 1994

ENGLISH ONLY

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

CASE STUDY ON THE NATIONAL EXPERIENCE OF THE UNITED REPUBLIC OF TANZANIA IN HORIZONTAL AND VERTICAL DIVERSIFICATION, INCLUDING POSSIBILITIES FOR CROP SUBSTITUTION

GE.94-54842

CONTENTS

	Paragraphs
Preface	1 - 4
Summary and conclusions	5 - 11
Chapters	
I. THE DIVERSIFICATION POTENTIAL OF THE UNITED REPUBLIC OF TANZANIA	12 - 21
II. THE EXPORT EXPERIENCE OF THE UNITED REPUBLIC OF TANZANIA	22 - 31
III. GENERAL GOVERNMENT POLICIES INFLUENCING DIVERSIFICATION	32 - 72
A. General economic policy environment	32 - 34
B. Exchange rate and trade policies	35 - 38
C. Export incentive schemes and export procedures	39 - 72
1. Structure of export incentive schemes	39 - 44
2. Assessment of the efficiency of export incentive schemes	45 - 49
3. Export procedures	50 - 51
D. Liberalization of agricultural marketing	52 - 59
E. Monetary and credit policies	60 - 63
F. Investment policy	64 - 68
G. The impact of general government policies on diversification	69 - 72
IV. DEVELOPMENT IN SELECTED COMMODITY SECTORS WHERE DIVERSIFICATION HAS OCCURRED	73 - 124
A. Mining	73 - 84
1. General developments	73 - 75
2. Gold	76 - 78
3. Gemstones	79 - 83
4. Conclusions	84
B. Horticulture	85 - 96
C. Sisal	97 - 103
D. Cotton and textiles	104 - 119
E. Hides and skins and leather	120 - 124
	Pages
References	77 - 78
Persons interviewed	79 - 80

PREFACE

1. The Committee on Commodities, at its fourteenth session in November 1990, decided that priority should be given to the study of the impact of market conditions in importing and exporting countries with regard to diversification, including government policies, structural adjustment, forms and methods of trading, and technical assistance.[1] The Standing Committee on Commodities, at its first session in February 1993, decided, in the same vein, that national experiences in horizontal and vertical diversification, including possibilities for crop substitution, should be analysed, and that the best ways of achieving diversification should be examined, taking into account competitiveness, market trends and opportunities.[2]

2. In accordance with these mandates, a number of country studies are being carried out, in Cameroon, Colombia, Fiji, Malaysia, Senegal, Solomon Islands and the United Republic of Tanzania. The experience of these countries in the diversification of their commodity exports (including increased processing and diversification into commodity-related marketing activities) as well as the conditions influencing this are being analysed. These conditions fall in two broad areas: the macroeconomic and international environment (including market access conditions), and the commodity-specific supporting framework (in terms of services supplied by the government or otherwise, infrastructure, market promotion etc.).

3. The approach attempts to identify the key factors which made commodity export diversification happen, or which prevented the exploitation of diversification possibilities. This includes questions as to which were the important factors which led to and facilitated the introduction of new export-oriented productive activities; what were the problems these new activities encountered, and, if these problems were overcome, how was this done; if problems were not overcome, were there gaps in the supporting environment, and in particular, government policies. It is difficult to assess the impact of each policy measure separately because of their complementary nature and the influence of weather conditions on agriculture production. The studies thus attempt to specify which package of conditions is necessary to make export diversification viable, and which package of policy measures seems to enhance the chances of export diversification, rather than to determine, for example, whether cheap credits are more useful for an exporting company than good market information networks.

4. Therefore, the goal of these studies is not to formulate general theoretical statements, neither is it to formulate specific policy recommendations for the countries being studied. Rather, it is to draw conclusions on the sorts of policies that would facilitate diversification, the support services that are absolutely necessary to enable local entrepreneurs to make use of existing possibilities, and the ways a country can improve its benefits from the marketing of its commodities. Presently, many countries are engaged in a process of policy reform; diversification of exports is generally

---

[1] TD/B/C.1/L.96, 21 November 1990, para. 12.

[2] "Establishment of the work programme of the Standing Committee", TD/B/CN.1/8, 3 February 1993.

one of the envisaged outcomes. However, the resources available to stimulate this diversification are scarce, and in general countries do not have the information necessary to determine how their resources can be used optimally. These studies will, it is hoped, support the process of policy formulation in developing countries in this area.

SUMMARY AND CONCLUSIONS

5. Any discussion of the impact of government activities in the United Republic of Tanzania on the country's diversification experience is difficult because of the limited reliability of official export statistics. Thus, if proceeds from unrecorded exports were the major financial source for imports under the own-funds import scheme, actual exports might be twice as high as those officially recorded. Interpreting data on recorded exports can therefore only approximate to "true" developments.[3]

6. The United Republic of Tanzania is rich in natural resources and, being a signatoryof the Lomé Convention and classified as a least developed country, it has not faced any major market access barriers for its exports. It seems, however, that shortcomings regarding the formulation and implementation of a medium-term strategy designed to improve basic conditions for diversification, such as the provision of infrastructure, skilled labour, export marketing support services and a legal environment for private sector activities, have been serious constraints to diversification. Since these constraints have had a major negative impact on the capability of economic agents to react to price incentives, government activities in the form of macroeconomic policies or policies specifically designed to foster sectoral development through the provision of economic incentives would probably have to be supplemented by measures that alleviate these fundamental shortcomings.

7. The United Republic of Tanzania has traditionally had a relatively wide range of commodity exports but most non-traditional commodities (i.e., other than coffee, cotton, sisal fibre, tea, tobacco and cashew nuts) have only marginally contributed to the country's export earnings. After suffering a sharp drop in the early 1980s, non-traditional exports substantially recovered in the aftermath of the structural adjustment measures that were adopted in the mid-1980s. Removing exchange-rate overvaluation, liberalizing external trade and domestic commodity marketing and pursuing more prudent fiscal and monetary policies were the major elements of these adjustment measures. However, little success has been achieved in tackling fundamental structural constraints, such as the poor quality of basic infrastructure and export support services. The serious deterioration in the performance of non-traditional exports that occurred in 1991 raises, indeed, some questions as to the sustainability of these exports.

8. A decisive factor for the increase in non-traditional agricultural exports between 1986 and 1990 was the fact that exporters of such commodities were able to operate in a liberalized marketing system. These exporters could react to

---

[3] This report is based on the publications listed at the end of the study and on information collected during a mission to the United Republic of Tanzania in April 1993. Particularly important developments that occurred in the remainder of 1993 are mentioned in footnotes.

price incentives and take advantage of higher earnings in terms of domestic currency following currency devaluations. Exporters of traditional agricultural commodities, by contrast, were until recently bound to the single-channel marketing system, where marketing intermediaries such as cooperative unions and marketing boards absorbed a disproportionate share of the export earnings. The increase in manufactured exports during the same period can mainly be attributed to the introduction of the own-funds import scheme. This scheme led manufacturers to increase their exports in the short term in order to obtain the financial resources required for the import of the necessary production inputs. The introduction of the Open General Licence system in 1988 that has made part of overall foreign exchange available on a non-administrative basis and, in particular, the replacement of the list of selective priority items by a negative list of goods excluded from import under this system in 1991, has substantially eased access to foreign exchange and thus basically removed the "need" to export at all costs in order to be able to import through the own-funds import scheme. This may explain part of the drop in non-traditional, and in particular manufactured, exports since 1991. It would appear that in particular textile exports were negatively affected by import liberalization because the exchange rate was not reduced sufficiently to maintain the competitiveness of the domestic textile industry. The fact that the liberalized macroeconomic policy measures were still in place after 1990, yet non-traditional exports dropped, also suggests that the reforms adopted may have to be supplemented by sector-specific policies to re-establish the momentum in non-traditional exports.

9. Specific export-related policy measures have been limited to a number of export-incentive schemes, such as duty drawback and foreign exchange retention. The different treatment of traditional and non-traditional exports in terms of retention of foreign-exchange earnings is, in fact, widely considered as the best (if not only) expression of the Government's promotion of non-traditional exports. However, these schemes have been established on the basis of short-term needs of direct exporters rather than being part of a comprehensive export incentive strategy that would have allowed producers of export commodities tc take advantage of the schemes. The actual efficiency of these schemes has therefore fallen short of their potential. Export-promotion schemes have recently been supplemented by a number of measures designed to promote officially recorded mineral exports. However, these actions have focused on attracting mineral exports to the official sector rather than on raising production. The poor performance of formal financial institutions, the continuing existence of regulations that make all exports subject to export control and licensing, and the non-existence of a one-stop export centre have additionally constrained (non-traditional) exports.

10. The Board of External Trade, which was created with the objective of establishing a national focal point for promoting external trade, has lacked appropriate funding and staffing. It has focused on regulation and other issues related to policy advice rather than providing services vital to export promotion. This has contributed to its lack of support from the business community. The Government's hesitant recognition of a legal status for private-sector activities has made its medium-term intentions with respect to the private sector uncertain, with the result that the business community has only slowly responded to price incentives and opportunities to offer marketing services that are not, or no longer, provided by government institutions. A typical successful exporter of non-traditional commodities during the second half of the 1980s can, in fact, be characterized as having obtained financial resources from the savings of his family (living abroad) to circumvent the burdensome and inefficient

procedure of obtaining loans from formal financial institutions; having established on his own initiative a network of suppliers of quality inputs delivered in timely fashion; and having secured market outlets by looking independently for market information and being seen to be a reliable commercial partner.

11. The example of the United Republic of Tanzania illustrates the fact that successfully promoting diversification on the basis of partial macroeconomic adjustment alone is difficult. While adjustment measures such as currency devaluations, provision of non-administrative access to foreign exchange, and import liberalization have been designed to generate an enabling, as opposed to a disabling, environment for non-traditional agricultural exports, the supply capacity of export sectors would apparently have required more stimuli to ensure sustainable growth of non-traditional exports. Support services such as the collection, analysis and dissemination of production and market information, or the undertaking of sector-specific research could probably have been provided by the private sector. However, the lack of clearly defined laws supporting private sector activities has resulted in a "wait-and-see" attitude of the private sector with the consequence of a widespread lack of cooperation between the government and the private sector. The absence of comprehensive reforms in the financial sector and the fact that the state-owned banks do not view their lending in development terms perpetuates a situation where exporters can access formal credit only with considerable difficulty. Boosting investment in human capital and physical infrastructure (transport, communications, power generation, access to safe water), widening the scope of macroeconomic policy adjustment and supplementing these general measures with specific export promotion measures, in particular in the form of marketing support services, would probably have been more effective in stimulating investment and using scarce resources efficiently than the measures that have actually been taken by the Government. On the other hand, considering the stance taken in economic policy during the two decades before structural reform was initiated as well as apparent shortcomings in capacity and institution building, the question arises as to whether enough time has elapsed to allow for the full implementation of economic and legal reforms and for these measures to become fully effective.

Chapter I

THE DIVERSIFICATION POTENTIAL OF THE UNITED REPUBLIC OF TANZANIA

12. The United Republic of Tanzania has a very rich and diversified natural resource endowment. The climate varies sufficiently among regions and rains are reliable enough to allow for the cultivation of a wide range of agricultural resources. The fertile slopes of Kilimanjaro are within a sufficiently short distance from Kilimanjaro International Airport (and Nairobi International Airport) and the port at Tanga to provide for the exports of perishable agricultural commodities without lengthy transportation. More than half of Lake Victoria, with its rich fishery resources, belongs to the United Republic of Tanzania. About 50 per cent of the country's land area classified as forest land [World Bank (1993, tables 1 and 33)]. The direct contribution of the forest industry to GDP is estimated at 2 per cent. The United Republic of Tanzania possesses some of the finest timber in the world, some species of which are indigenous to Tanzania only. In addition, the country has plantations of both softwoods and hardwoods. Deforestation is a problem which, however, is due to

extensive charcoal burning, farming, fuel wood cutting, and grazing rather than to logging. Altogether, the agricultural sector provides some 60 per cent of GDP and employs 90 per cent of the workforce [World Bank, (1992, p. 54)]. The country is also naturally endowed with a wide variety of mineral deposits, including tanzanite (a precious stone whose value is similar to that of diamonds), for example, which is found only in the United Republic of Tanzania. Despite its potential, recorded activity in the mineral sector declined until recently, with the result that the share of this sector in GDP remained below 1 per cent during the 1980s.

13. With a population of about 25 million inhabitants the country has a domestic market potential that is relatively large. However, domestic markets are underdeveloped, segmented and widely dispersed. The annual per capita income of US$ 100 in 1991 [World Bank (1993, table 1)] makes the United Republic of Tanzania the second poorest country in the world, and the purchasing power on the domestic market is thus low. This may be a constraint since successful diversification in other countries has often initially been geared to satisfying domestic needs, especially in the food and textile sectors. One of the advantages of a large domestic market is that it allows production with economies of scale; this is often required for a company to be competitive on world markets. As the United Republic of Tanzania is a signatory to the Lomé Convention and is classified as a least developed country, the country's exports enjoy preferential access to a wide range of markets. Market access barriers, such as tariffs, can thus be considered as not having been a major constraint to diversification. Non-tariff restrictions such as quality requirements have, by contrast, been mentioned by exporters as limiting their access to the markets of some countries.

14. Despite the fact that the level of education has substantially increased since independence, the majority of the population has a low educational level. Primary school enrolment was 63 per cent, secondary 4 per cent, and tertiary under 1 per cent in 1989 [World Bank (1993, table 29)]. The number of people with a secondary school education used to be monitored so as to match the growth of wage employment opportunities. This strategy led to remarkable differences with respect to the level of secondary school education on the urban labour market and even more so for the smallholder population compared to, for example, the same levels in Kenya [Bevan et al. (1993, pp. 55-56)]. Unattractive working conditions, including inadequate infrastructure and low wages, have contributed to the brain drain among the very few skilled workers. Shortages of skilled labour, managerial capacities and technical expertise are hence a serious constraint to diversification.

15. The infrastructure is in poor condition, with few signs of improvement in water, power and telecommunication services. Many donors have contributed to alleviating infrastructural problems by concentrating their support on the rehabilitation of roads and railways.[4] At present, one of the major projects is the Integrated Road Programme. This programme concentrates on trunk, i.e., transit, roads, and the decision as to what road is to be rehabilitated depends on the volume of traffic rather than on what the traffic carries. The programme is therefore not specifically designed to promote non-traditional exports.

---

[4] Improvements in the educational and health system also have high priority in the donors' aid policy.

16. Despite donor support, the level of investment in infrastructure has remained low. This has led to a rapid deterioration in the transport network causing high transport costs, with raw materials sometimes being unable to reach the processing plants and finished goods being cut off from their markets. Plants are often unable to operate at reasonable utilization levels because of obstacles in the supply of raw materials and their inability to transport the finished products to their markets. For example, major bottlenecks on the rail line to the east have contributed to low capacity utilization in cotton ginneries. A dearth of air cargo space can be observed for horticultural products and cut flowers. One of the reasons for this is that the domestic airline stopped its direct flights to Europe in March 1992, only nine months after establishing them.

17. Power supply has been erratic since August 1992, owing to the low water level in hydroelectric dams. Sudden power failures have led to considerable disturbances in production, in particular in the textile, wood processing and horticultural sectors, where an uninterrupted power supply is of fundamental importance for production and/or storage. A further problem is that the steep increases in electricity tariffs in the last few years - the tariffs have doubled since the beginning of 1991 - have not been announced with sufficient lead time to allow for the necessary adjustment in companies' budget planning.

18. Information on the modalities of exporting to specific markets and on the quality and presentation of a commodity required on these markets is difficult to obtain. Exporters have complained about the inefficiency of the institutions dealing with industrial standards, testing and quality assurance, such as the Tanzania Bureau of Standards. The poor state of the telecommunication system raises the cost of doing business and compounds the lack of information and market transparency.

19. The private sector is not very well developed. This seems mainly to be the result of the decision that developing a socialist society is the best way to achieve the country's complete emancipation from ignorance, poverty and disease, as expressed in the Arusha Declaration of 1967. This decision contributed to a situation characterized, among other things, by the fact that land could not be privately owned, and thus could not be accepted as collateral by banks. It was also impossible for a dynamic private sector to develop, because the part of the population with the highest level of skills was virtually entirely absorbed into Government and Party, with the result that the urban elite became the main architect of government policy. The lack of a consistent policy environment that would have favoured agriculture, a privileged sector of the economy due to the favourable climate, may also have to be seen against this background. Lofchie (1989, p. 191), in fact, argues that the agricultural policies of the government were "framed and implemented by politicians whose political and economic base was exclusively urban. Tanzania's agricultural policies thus provide one of Africa's clearest examples of a system designed to transfer economic resources from the countryside to the city."

20. The Party Leadership Code of 1967, which was applied until 1991, also virtually excluded educated African-Tanzanians from engaging in all types of income-generating activities and has acted as a disincentive to small-scale entrepreneurship among this part of the population. Private commerce, such as shopkeeping or other small-scale private business, has therefore been dominated by Indian-Tanzanians. As a result, the intention to give the private sector a more important role in the economy that has emerged since the mid-1980s, has

faced the problem of a lack of both working capital and business experience on the part of African-Tanzanians. This has led to a debate on whether "indigenization", i.e. giving priority to African-Tanzanians, should be part of the privatization process. It has also been one of the factors that have caused the very slow growth of private investment in diversification-related activities over the last few years. Other factors that have hampered private investment include the inefficiency of the domestic financial system and the fact that private trade in the food sector has been tolerated but not founded on a sure legal basis. The government's long-term strategy towards the private sector has therefore been uncertain.

21. In conclusion, it appears that the lack of resolve in the implementation of structural policy measures addressing fundamental constraints in infrastructure and services has led to less diversification in the United Republic of Tanzania than might have been expected on the basis of the country's rich resource endowment. Although successful commodity-related diversification has usually resulted from a combination of factors and conditions, it seems unlikely that government action in the form of macroeconomic and sectoral policies could have compensated for the lack of improvement in infrastructure, training, export extension services and a sound and stable legal framework supportive of private sector activities.

Chapter II

THE EXPORT EXPERIENCE OF THE UNITED REPUBLIC OF TANZANIA

22. The United Republic of Tanzania has had a large trade deficit for many years. Chart 1 shows that its merchandise exports declined between 1980 and 1990. The slight increases in the second half of the 1980s were not sufficient to compensate for the decline in the first half of the decade. This makes a rapid improvement of the export performance in merchandise trade[5] imperative to reduce the country's dependence on foreign aid.[6] Chart 2 suggests that traditional export crops, including coffee, cotton, sisal, tea, tobacco and cashew nuts, continue to dominate the country's export earnings. Given the supply and demand situation on world commodity markets, however, there are only slight possibilities of expanding export earnings substantially from these traditional crops. A considerable expansion of non-traditional exports is thus crucial.

23. On the other hand, aiming at export diversification as such is not really the issue. In 1970, the country already exported a range of 49 commodities compared with 83 commodities in 1980 and 55 commodities in 1989. This is reflected in the traditionally relatively high value of its diversification index

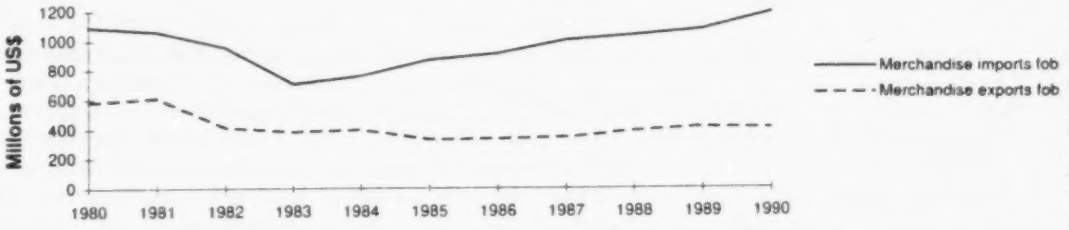
---

[5] Tourism is another source of foreign exchange for the United Republic of Tanzania. US$ 120 million were earned in this sector in the 1992/93 budget year, compared to US$ 95 million the year before [Marchés Tropicaux, 23 July 1993, p. 1921]. The fact that revenue from tourism increased by 65 per cent between 1985 and 1991 makes this sector the country's most dynamic one [ibid., 9 April 1993, p. 957].

[6] In 1991, official development aid corresponded to 43 per cent of GNP [World Bank (1993, table 20)].

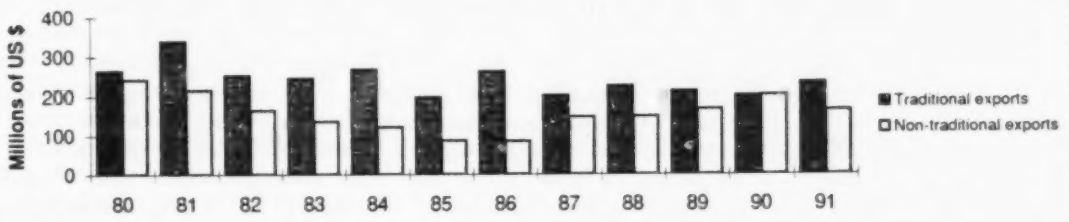
of about 0.85[7]. However, most non-traditional export commodities have only made a marginal contribution to the country's total earnings. A major effort towards both a deepening of existing production of non-traditional commodities and further diversification therefore still needs to be made.

Chart 1: The United Republic of Tanzania's merchandise imports and exports, 1980-1990



Source: International Monetary Fund, International Financial Statistics, Yearbook 1992, p. 677

Chart 2: Composition of the United Republic of Tanzania's exports, 1980-1991



Source: Tanzanian Economic Trends, volume 5, 1992, No. 1&2

24. Before recent trends in Tanzania's exports are discussed, a word on the reliability of official export statistics is in order, as there is strong evidence suggesting that official statistics seriously underestimate actual exports. Unrecorded exports are most likely the major source of funds for imports made under the own-funds import scheme which was introduced in 1984. Estimating unrecorded exports to account for 30-100 per cent of these funds ($200 million to $600 million over the last few years) [BoI (1993, p. 2)] indicates that actual exports might be twice as high as officially recorded. Capital flight through over-invoicing imports and under-invoicing exports adds to this gap.[8] The data problem is exacerbated by the fact that even official records

---

[7] UNCTAD: Handbook of International Trade and Development Statistics, chapter 4.5, various issues, Geneva.

[8] Under-invoicing imports has become more difficult with the decision of the Bank of Tanzania to decrease the threshold level for compulsory pre-shipment inspection from US$ 5,000 fob to US$ 2,000 cif as of April 1993.

differ, depending on whether figures from the Bank of Tanzania (BOT), the Bureau of Statistics or the Board of External Trade (BET) are used. The reason for this is that all these institutions publish their own corrections of the data, which were collected and provided to them by the Customs and Sales Department. Given that motivation, expertise and equipment at the Customs and Sales Department fall short of what would be required for adequate export data recording, correction of the Customs and Sales Department's data is needed[9]. BOT figures have the advantage of being reasonably detailed regarding non-traditional exports, and have therefore been used in this study. It should, however, be kept in mind that any interpretation of these data can only approximate to "true" development.

25. Evidence on the development of officially recorded non-traditional exports, as shown in chart 2, is mixed. Earnings of these exports measured in US dollars recovered in nominal terms between 1986 and 1990, after suffering a sharp drop during the early 1980s, but 1990 levels did not reach those at the beginning of the decade. In addition, earnings from non-traditional exports declined again in 1991. Given that the share of non-traditional exports in total exports rose from 25 per cent in 1986 to almost 50 per cent in 1990, it may be argued that the export promotion measures that were introduced after 1985 (see chapter III) were, at least temporarily, successful. However, non-traditional exports already accounted for about half of total export earnings in 1980-81, and were it not for the spectacular rise in recorded gold exports since 1990, officially recorded non-traditional exports would now be back at 1987 levels.

26. Regarding the development of export earnings for individual non-traditional export items or groups between 1985 and 1992, table 1 suggests that diamonds are the only single item whose recorded export earnings dropped sharply during this period. Official exports of most other products increased up to 1990, especially those of gold, sisal twine and rope, marine and forestry products, oil-seeds and pulses, paper and paper products, textiles and miscellaneous manufactured products. But export earnings for these items exhibit considerable fluctuations[10] over the years, which raises doubts as to the sustainability of new exports. The decline in earnings of most non-traditional exports after 1990, with the exception of gold, oil-seeds and pulses, textiles, sisal twine and rope and marine products, also points to this vulnerability. This drop was most pronounced for a number of manufactured products (many small items combined under "manufactured products nes") and in forestry products (see also chart 3). As no volume data for non-traditional exports are available, it cannot be determined whether the recent downturn in earnings is caused by a drop in export volume, which could partly be the result of the general recession in Tanzanian markets overseas, or by a decline in realized prices, e.g. in connection with unsatisfactory quality, or a combination of both.

27. Tables 1 and 2 suggest that the structure of recorded non-traditional exports has changed considerably since 1980. A large number of unspecified

---

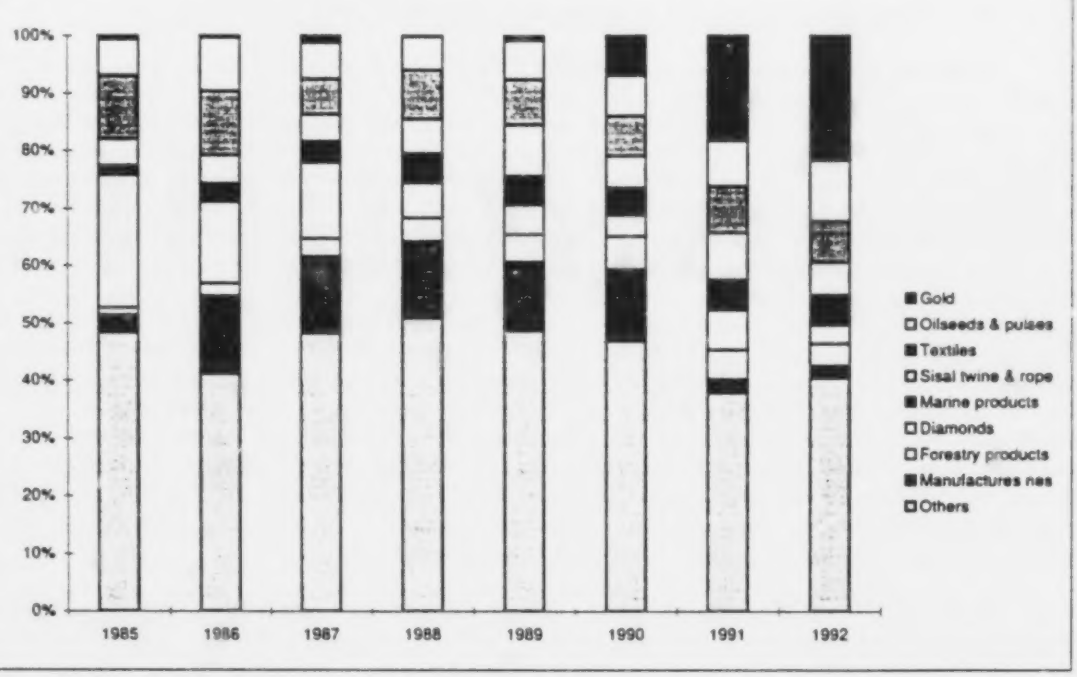
[9] Problems in data recording include, for example, the fact that data on values appear without corresponding quantity entries or vice versa, and that the relationship between quantities and values is sometimes doubtful [Ministry of Agriculture (1992b, pp.3-4)].

[10] As discussed in further detail in chapter IV, these fluctuations seem to have been the result mainly of the fact that several companies engaged in export activities only once in order to earn foreign exchange for the imports required for the rehabilitation of their production capacity.

manufactured products and miscellaneous items dominated non-traditional exports until 1990, reaching a share of over 60 per cent in 1988, whereas in 1992 five non-traditional export items - gold, oil-seeds and pulses, textiles, sisal twine and rope, and marine products - accounted for about 50 per cent of total recorded non-traditional export earnings, gold alone for about half of that share.

28. In conclusion, official statistics suggest that there was a promising recovery in earnings from non-traditional exports up to 1990 but that there still are serious constraints that have hampered a sustainable growth of these earnings since 1990. This means that there seems to have been a positive supply response to a changing environment up to 1990 and a subsiding of this response thereafter, despite the fact that the economic incentives continued to be in place. Accordingly, two main aspects of the recent trends in non-traditional exports have to be explained: the considerable recovery of non-traditional exports after 1986 and the reversing of this upward trend more recently.

Chart 3: Composition of the United Republic of Tanzania's non-traditional exports, 1985-1992



Source: Bank of Tanzania (internal document) as reported in BoI (1993, p. 30).

29. Regarding developments in United Republic of Tanzania's traditional exports, chart 4 suggests that the volume of coffee, tea and tobacco exports was relatively stable between 1980 and 1991. Sisal exports declined continuously, while cotton exports declined until 1985 and almost continuously increased

Table 1

Non-traditional exports from the United Republic of Tanzania 1985-1992; in millions of US $

		1985	1986	1987	1988	1989	1990	1991	1992[a]
A.	PETROLEUM PRODUCTS								
	Residual Fuel Oil	10.9	3.8	5.7	12.6	8.6	7.4	4.6	7.4
	Other by-products	2.8	0.9	1.3	2.8	6.5	3.7	2.8	3.3
	SUB-TOTAL[b]	13.7	4.6	7.1	15.3	15.1	11.2	7.3	10.6
B.	MINERALS								
	Diamonds	20.0	12.2	19.4	9.1	8.5	7.5	11.3	5.6
	Gold	0.6	0.3	1.8	0.3	1.5	14.1	30.1	38.8
	Salt	0.6	0.0	0.6	1.2	0.9	0.5	1.5	1.0
	Other minerals	0.4	0.5	0.2	0.8	1.1	1.9	3.5	2.7
	SUB-TOTAL[b]	21.6	13.0	22.0	11.4	11.9	24.1	44.3	51.2
C.	MANUFACTURED PROD.								
	Sisal twine and rope	3.9	4.2	6.8	8.8	14.7	11.1	13.5	10.0
	Cashew kernels	1.7	0.0	0.0	4.4	6.3	6.7	4.4	2.2
	Textiles	9.6	9.6	9.1	12.9	13.4	14.2	13.2	12.8
	Blended tea and inst. coffee	1.0	1.2	2.4	2.3	1.3	1.4	0.6	2.0
	Cigarettes	1.8	2.0	2.3	1.7	2.1	2.0	1.6	2.9
	Leather and leather products	1.0	1.5	4.2	4.2	5.0	4.4	2.6	3.1
	Pyrethrum products	1.4	1.8	2.2	2.9	2.3	5.5	2.8	2.2
	Wattle extracts	2.4	2.6	4.3	5.1	3.6	5.9	4.0	3.3
	Aluminium products	0.5	1.0	2.1	3.2	3.4	5.0	3.9	2.8
	Cement	1.5	0.8	2.0	3.8	4.2	5.5	5.6	5.7
	Sugar	3.9	4.2	5.6	5.4	5.6	6.5	6.8	6.4
	Paper and paper prod.	0.3	1.9	7.1	4.8	6.8	7.3	6.0	5.0
	Electrical products	1.4	1.0	1.6	1.9	2.8	2.9	1.8	1.8
	Manfactured prod. nes	2.6	11.6	19.5	19.8	20.0	24.9	3.7	3.9
	SUB-TOTAL[b]	32.9	43.4	69.2	81.0	91.4	103.4	70.3	64.2
D.	MISCELLANEOUS								
	Cotton seed cake	1.6	1.8	1.4	2.4	2.0	0.5	1.9	3.5
	Marine products	1.4	2.8	5.5	7.5	8.6	9.7	8.5	9.3
	Oil seeds and pulses	5.4	8.0	9.2	8.6	11.2	14.3	13.0	18.8
	Other horticult. prod.	0.0	2.7	2.8	2.7	1.1	0.3	0.7	1.0
	Animals and animals prod.	4.1	2.2	3.3	5.2	5.3	5.8	2.2	3.0
	Forestry products	1.1	1.9	4.5	6.1	8.0	11.6	8.4	6.8
	Spices	0.6	0.7	1.4	1.0	3.2	3.2	0.7	0.3
	Cocoa beans	2.8	2.6	3.8	4.4	4.0	4.2	2.2	3.9
	Maize	0.0	0.2	5.0	1.2	4.2	4.7	0.7	0.4
	Others	1.1	2.1	11.2	1.7	0.9	6.1	3.4	4.2
	SUB-TOTAL[b]	18.0	25.0	47.9	40.8	48.4	60.3	41.6	51.3
GRAND-TOTAL[b]		86.2	85.9	146.1	148.5	166.9	201.8	163.5	177.4

a = preliminary b = discrepancies due to rounding

Source: Bank of Tanzania (internal document) as reported in BoI (1993, p.30)

Table 2

Composition of exports from the United Republic of Tanzania, 1980-1991
Values in millions US$, volumes in '000 metric tons, unit price in US$

		1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991*
Coffee	: Value	143	157	124	130	154	118	185	109	97	108	87	73
	: Volume	44	68	55	51	55	44	50	48	39	50	57	57
	: Unit Price	3293	2314	2269	2570	2795	2692	3666	2263	2493	2164	1514	1274
Cotton	: Value	48	77	56	62	50	30	30	44	75	65	65	95
	: Volume	31	44	39	40	29	22	32	42	52	48	39	66
	: Unit Price	1539	1732	1443	1548	1711	1339	959	1042	1455	1351	1658	1438
Sisal	: Value	31	32	24	13	11	6	5	6	5	4	3	3
	: Volume	49	57	51	27	21	15	15	14	11	9	6	7
	: Unit Price	625	565	479	489	490	381	345	427	435	496	542	488
Tea	: Value	22	20	19	22	23	17	14	18	16	16	25	24
	: Volume	13	15	12	17	11	12	10	14	11	11	17	18
	: Unit Price	1664	1311	1557	1313	2114	1459	1427	1260	1433	1478	1461	1338
Tobacco	: Value	12	17	19	12	9	14	13	12	15	12	12	22
	: Volume	9	11	10	5	5	8	7	8	10	8	6	10
	: Unit Price	1468	1594	1894	2141	1946	1757	1766	1451	1569	1557	1915	2184
Cashew nuts	: Value	7	34	10	7	22	11	15	12	16	7	10	16
	: Volume	9	25	17	10	33	24	18	11	16	9	11	18
	: Unit Price	808	1365	554	619	655	487	842	1111	987	812	905	875
Sub-Total	: Value	264	339	252	245	268	196	262	201	224	213	201	233
Petroleum Products	: Value	11	6	9	14	23	14	4	7	12	15	17	6
Minerals	: Value	49	51	35	44	34	22	13	22	16	12	27	45
Manufactured Products	: Value	85	55	38	44	33	33	39	63	72	91	89	81
Other	: Value	97	103	82	33	31	22	29	54	48	48	60	57
Sub-Total	: Value	242	215	164	135	120	91	86	146	148	167	192	189
Grand-Total	: Value	506	554	415	380	388	287	348	347	372	380	394	422

* = preliminary
Note: Discrepancies in totals due to rounding. Inconsistencies with data in Table 3 because of different data sources.
Source: Tanzanian Economic Trends, Volume 5 No. 1 & 2, 1992, Table 6a as reported in BoI (1993, p.29), and UNCTAD secretariat calculations.

thereafter. As shown in chart 5, the value of the country's traditional exports by and large showed the same evolution, with the exception of coffee, a sector for which the evolution of export earnings has been dominated by price developments rather than by changes in exported volumes. The continuing low prices on the world coffee market thus caused cotton to replace coffee as the most important single foreign exchange earner in merchandise exports in 1991. Charts 4 and 5 also show the volatility in cashew nut exports both in value and volume terms until 1989, when a more sustained recovery seems to have begun.

30. Combining the evidence on the development of export earnings from traditional exports with that on non-traditional exports suggests that there has been successful vertical diversification in the sisal sector, whereas constraints in the textile sector seem to have prevented the cotton production from being fully processed domestically, at least since 1986. Regarding horizontal diversification, coffee, cotton and tea were still the three largest single items in Tanzania's merchandise export earnings in 1990, accounting for about 45 per cent of total earnings. By 1991, gold (a non-traditional export commodity) earned more foreign exchange (from recorded exports) than any individual traditional export commodity, apart from sisal. Horticultural products including oil-seeds and pulses have also experienced a dynamic expansion. This suggests that the commodities for which considerable and sustainable diversification, can be observed are gold and horticultural products regarding horizontal diversification and sisal regarding vertical diversification.

Chart 4: Composition of the United Republic of Tanzania's traditional exports by volume, 1980-1991

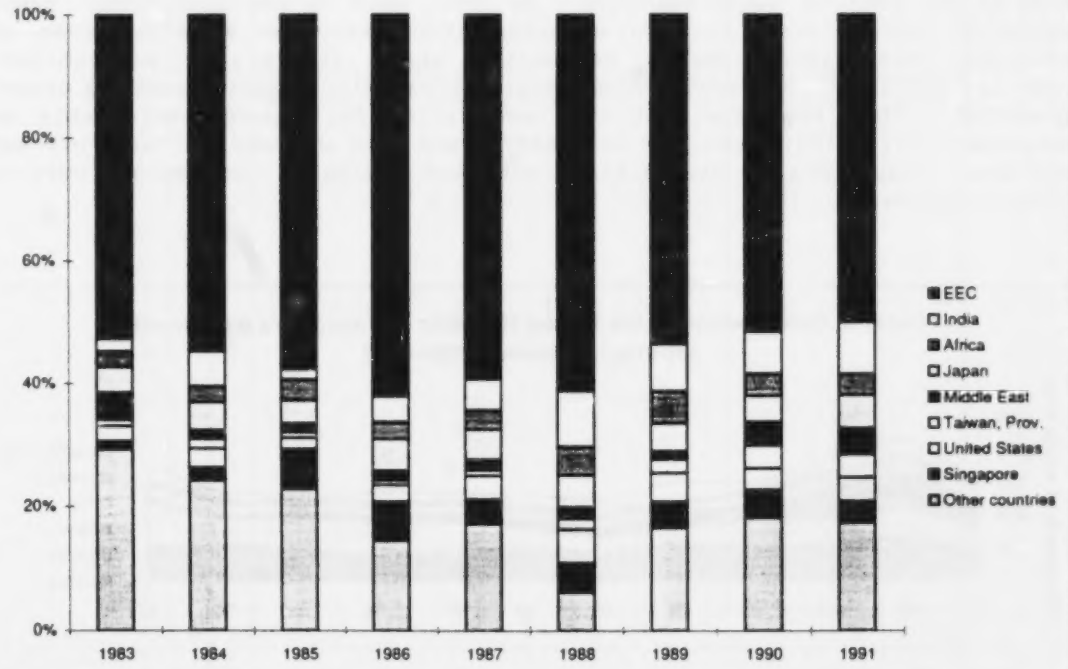
Source: Tanzanian Economic Trends, volume 5, 1992, No. 1&2

Chart 5: Composition of the United Republic of Tanzania's traditional exports by value, 1980-1991

Source: Tanzanian Economic Trends, volume 5, 1992, No. 1&2

31. As shown in chart 6, the countries of the European Economic Community (EEC) have traditionally been Tanzania's principal export markets, accounting for between 55 and 62 per cent of total exports.[11] Since 1989, exports to South-East Asia (in particular, Taiwan Province of China, Singapore and Hong Kong) and the Middle East (Oman and Saudi Arabia) have considerably increased. Tanzania's exports to other African countries are small at present, amounting to about 7 to 8 per cent of total exports. About half of these exports are made to Kenya alone.

Chart 6: Destination of the United Republic of Tanzania's exports by major countries and country groups, 1983-1991



Source: International Monetary Fund, Direction of Trade Statistics.

[11] Data on the destination of Tanzania's exports by commodity are not available.

Chapter III

GENERAL GOVERNMENT POLICIES INFLUENCING DIVERSIFICATION

A. General economic policy environment

32. The Arusha Declaration of 1967 aimed at creating a society based on the African concept of "ujamaa" (loosely translated as familyhood), and established self-reliance as the main pillar of economic policy in Tanzania. The Arusha Declaration was followed by widespread nationalizations and large-scale "villagizations" of the rural population, combined with pervasive administrative controls in all sectors. The effects on the Tanzanian economy of this policy, combined with external shocks (terms of trade losses, war with Uganda, variable weather conditions) during the late 1970s and early 1980s, resulted in low or negative per capita GDP growth rates, a drop in production, exports and capacity utilization, a rapid accumulation of external debt and a serious shortage of foreign exchange for the import of production inputs and consumer goods.[12] Consequently, the substantial achievements since independence in building an economic and social infrastructure not only could not be sustained, but were substantially eroded.

33. However, an improvement in the performance of the Tanzanian economy has taken place since the mid-1980s. The Government's economic restructuring programme has encompassed far-reaching reform measures across a widening range of sectors and policy instruments. This programme has embodied import liberalization measures, begun in 1984, and the economic recovery programme, adopted in 1986 and expanded by the economic and social action programme in 1989. Assisted by relatively good weather and additional aid inflows, the United Republic of Tanzania has, as a result, enjoyed positive per capita GDP growth and improved welfare. In June 1986, the Government announced an Economic Recovery Programme (ERP), which was supported by a stand-by arrangement from the IMF and a loan from the World Bank. The measures included in the ERP represented a comprehensive structural adjustment reform that built on the measures that the Government had adopted in its three-year Structural Adjustment Programme in June 1982 and the two National Economic Survival Programmes (1981 and 1982). The key objective of the adjustment measures has been to raise agricultural output. Other objectives of the ERP included the rehabilitation of the physical infrastructure of the country in support of directly productive activities, the increase of capacity utilization in industry through the allocation of scarce foreign exchange to priority sectors and firms, and the restoration of internal and external balances by pursuing prudent fiscal, monetary and trade policies.

34. In the first years of structural reform, the most successful adjustment measures have been in areas of economic liberalization. The various substantial devaluations have reduced the overvaluation of the Tanzanian shilling (T Sh), and the partial liberalization of external trade, domestic marketing and price policy raised production incentives through improved agricultural terms of trade and marketing efficiency. The Government is continuing its effort by broadening the reform programme to include a comprehensive restructuring programme in agricultural marketing (liberalizing marketing arrangements, reforming cooperative systems), infrastructure (implementing the integrated roads

---

[12] See chart 1 for evidence of the drop in imports caused by the lack of foreign exchange in the first half of the 1980s.

programme), and the financial sector (allowing entry to foreign banks, granting autonomy to and initiating restructuring of existing banking institutions). In addition, initial steps in the privatization of parastatals have been taken. So far, however, the adjustment measures have emphasized the rehabilitation of existing productive structures, rather than establishing new, non-traditional production and export structures.

B. Exchange rate and trade policies

35. The Tanzanian shilling is pegged to a basket of the currencies of Tanzania's main trading partners. The BOT quotes daily buying and selling rates for the US dollar. Because of the considerable overvaluation of the shilling implied by these official exchange rates, parallel buying and selling rates have existed for many years. As shown in table 3, the numerous devaluations since structural adjustment started have substantially reduced the overvaluation of the Tanzanian shilling.[13] Given that the real exchange rate index was 65.1 in 1979 (1985=100), the table, however, also suggests that the devaluation at the beginning of economic adjustment could remove only the appreciation that had accumulated at the beginning of the 1980s. Improvements in external competitiveness with respect to the beginning of the decade were obtained only during 1987.

Table 3

Evolution of the exchange rate, 1985-1993

	Official rate T sh/US$	Parallel rate T sh/US$	Real exchange rate index* (1985=100)	Apparent overvaluation** in per cent
1985	17.5	67	100.0	283
1986	32.7	161	69.5	392
1987	64.3	170	44.3	164
1988	99.3	211	36.2	112
1989	143.4	250	30.1	74
1990	195.1	300	25.1	54
1991	219.0	366	26.1	67
1992	297.0	367	22.9	24
1993 (May)	371.0	470	n.a.	27

Notes:

* Real bilateral exchange rate with respect to the US dollar; relative consumer price indices have been used for price adjustment; data from International Financial Statistics.

** The parallel or black market premium can be used only as a rough indicator of exchange-rate overvaluation because the premium, firstly, also reflects a risk premium for transactions on the parallel market, and secondly, is an indicator of the market clearing exchange rate at any point in time rather than an accurate measure of long-term overvaluation. Apparent overvaluation has been calculated as the percentage by which the official rate (Off) values the shilling higher than the parallel rate (Black), i.e. apparent overvaluation = ((Black-Off)/Off) x 100.

Source: Official rates from International Financial Statistics (period averages); parallel rates (period averages) from World Currency Yearbook (various issues).

---

[13] The United Republic of Tanzania liberalized the exchange rate in August 1993.

36. Parallel to the devaluations, foreign exchange controls have been partially lifted. In 1984, the own-funds import scheme was introduced. Under this scheme an importer could use foreign exchange obtained through unofficial sources, e.g. associates or relatives living abroad, to import an increasingly wide range of commodities, including most intermediate goods and a number of capital goods, spare parts and building materials, as well as some consumer goods. The own-funds scheme was aimed at alleviating the severe shortages of goods available within the economy and significantly eased the import compression of the early 1980s. In particular, the scheme was designed to provide production incentives as producers were expected to increase production to gain access to cash for long-delayed purchases of both production inputs and consumer goods, once these goods became available in the rural areas. The own-funds import scheme also contributed to dismantling Tanzania's elaborate system of quantitative import restrictions by allowing a substantial part of inputs into the country under a liberalized window.[14]

37. In February 1988, the Government introduced an Open General Licence (OGL) system, starting the process of making a part of overall foreign exchange available on a non-administrative basis for selected high priority items. The OGL scheme is a donor-financed facility with conditionality[15] designed to facilitate imports of production inputs for industry. Regulations regarding the OGL have been adjusted several times since their introduction. In 1990, the ceiling of US$1 million per importer per annum was removed, and in 1991 the list of goods covered was replaced by a 'negative list' of those specifically excluded. The negative list has since been shortened considerably. These measures allowed importers to obtain access to foreign exchange through the OGL window. This was a substantial improvement of the situation of importers since they previously had to finance their imports through the own-funds scheme, i.e. they had to export in order to be able to import. The donors temporarily suspended their payments to the OGL in mid-1992 - Tanzania could therefore only use 30 to 40 per cent of the funds pledged by the donors for balance-of-payments support[16] - because they intend to change the system to allow for more transparency and the accountability of transfers, by requiring cash-cover payment up-front and concentration of all funds on one account.[17]

38. The Foreign Exchange Act, which came into effect in July 1992, provided for the establishment of foreign-exchange offices ("FOREX Bureaux") which carry out foreign-exchange business at market-determined exchange rates, and for the

---

[14] According to World Bank estimates, own-funds imports have accounted for 35-40 per cent of total imports [World Bank (1991, p. 90)].

[15] Conditionality is basically linked to a reduction of bureaucracy and to liberalization in the state and parastatal sectors.

[16] For 1994, the donors raised their pledged payments by about 20 per cent from US$ 990 mn to US$ 1.2 billion of which US$ 840 mn is project aid and technical cooperation and the remainder balance-of-payments support [Neue Zuercher Zeitung, 14 July 1993].

[17] To compensate for the suspension of aid payments through the OGL, the donors have raised bilateral import support. Moreover, the European Community introduced a facility which is similar to the OGL. The design of this facility is also meant to serve as a blueprint for a reformed OGL. Under the EC facility, imports have, however, to come from EC or ACP countries. This will not be the case for a reformed OGL.

introduction of foreign exchange accounts. One effect of the latter is that 100 per cent of foreign exchange proceeds can be retained for "gifts" from friends abroad, compared to 50 per cent for officially recorded exports (see section C below for details of foreign-exchange retention schemes).

C. Export incentive schemes and export procedures

1. Structure of export incentive schemes

39. Most of the existing export incentive schemes were developed during the preparatory phase of the first ERP, launched in 1986, when the economy suffered from a severe shortage of foreign exchange and a highly overvalued currency. The main goal of these schemes was to provide for automatic access to foreign exchange, whereby the parallel exchange rate could be applied for part of the foreign exchange obtained. The schemes were thus designed to facilitate the import of production inputs and to enhance export profitability. The applicability of the different incentive schemes to major groups of non-traditional exports is summarized in Table 4.

Table 4

The applicability of export incentive schemes to major commodity groups

Commodity group	Available incentives	Desired impact
Petroleum products	- 50% retention - duty drawback - ECGS	- enhance export profitability - raise competitiveness - ease access to foreign exchange and credit
Gemstones and gold	- 70% retention - ECGS - premium price for gold - forex entitlement certificates for gold	- ease access to foreign exchange and credit - enhance profitability of trading through official channels
Manufactured products	- 50-100% retention - duty drawback - SCRS - ECGS	- ease access to foreign exchange and credit - raise competitiveness - enhance export profitability
Miscellaneous primary products	- 50% retention - ECGS - SCRS	- ease access to foreign exchange and credit - enhance export profitability

Source: Based on Mbatia (1993, p. 11)

40. The major general incentive schemes for non-traditional exports include the Seed Capital Revolving Scheme, the export proceeds retention scheme, the duty drawback scheme, and the Export Credit Guarantee Scheme.[18] The Seed Capital Revolving Scheme (SCRS) was launched in January 1985 as a pre-export financing facility (in foreign currency) with retention rights. Its objective is to provide seed capital to start export production. The participating companies are required to pay 100 per cent cash cover in local currency for the amount allocated to them; in exceptional cases, participating companies can obtain the capital as short-term credit. The rate of retention exporters are allowed to use for imports depends on the kind of imports (e.g. spare parts or consumption goods, etc.) [see Mbatia (1993, p. 9) for details]. Associated with this scheme is the Business Travel Fund, which provides funds for business travel abroad. Both the scheme and the fund are sponsored by donor agencies from Sweden and Norway and administrated by the BET.

41. The general retention scheme for non-traditional exports was introduced by the Ministry of Industries and Trade in 1986, providing for the retention of 50 per cent of the export proceeds for the import of specified items. The rate of retention was later lowered to 35 per cent and then raised again to 50 per cent and even 100 per cent for sisal twines and ropes. Since 1988, the government has allowed retention of 70 per cent - compared to, at the time, 35 per cent for other non-traditional exports - of export earnings from gemstones and gold exports, as a measure to curb illegal exports. Traditional export crops continue to be valued at the official exchange rate.[19] This has meant an implicit tax on traditional exports of over 20 per cent in the last few years. The different treatment of traditional and non-traditional exports in terms of retention of foreign-exchange earnings is widely considered as the most explicit (if not the only) expression of the Government's promotion of non-traditional exports.

42. The duty drawback scheme was introduced in July 1988 and has been the only monetary incentive available for exporters of non-traditional products. The scheme is primarily directed towards manufactured exports as it provides for import duty and tax refunds on imported inputs for export production. This scheme is funded by the government budget and administered by the BET. A similar scheme was in place for exporters of cotton products between 1986 and 1988.

43. The Export Credit Guarantee Scheme (ECGS) was established by the BOT in 1990. It is designed to encourage financial institutions to provide pre-shipment and post-shipment credit to exporters of non-traditional products with preferential conditions, to enable these exporters to procure production inputs. One kind of credit guarantee covers pre-shipment advances made to an exporter against a specific export order. A second kind represents a whole turnover credit guarantee covering pre-shipment and post-shipment credits, granted to an exporter for several export orders or sales contracts.

---

[18] As a more symbolic incentive, the Presidential Export Award, introduced in 1981, provides recognition of exemplary performance of exporters of both traditional and non-traditional products.

[19] Up to 10 per cent retention has recently been introduced for earnings from traditional exports, but it seems that only few exporters have taken advantage of this allowance.

44. In order to attract into official channels the substantial amount of foreign exchange derived from illegal gold exports, two additional incentive schemes that apply only to gold exports were established. Foreign Exchange Entitlement Certificates were introduced by the BOT in 1990 to encourage a quick turnover in gold sales. The certificates enable gold dealers to obtain the full value of their proceeds in domestic currency, while maintaining their right to retain 70 per cent of their proceeds in foreign exchange. The foreign exchange can be repurchased within one year, up to a specified ceiling per transaction. Gold Premium Pricing was also introduced in 1990, enabling gold dealers to realize prices in official trading comparable to those on the parallel market.

2. Assessment of the efficiency of export incentive schemes

45. In general, it appears that the actual efficiency of the export incentive schemes has fallen short of their potential. This is mainly due to the fact that the schemes have been established on the basis of the immediately visible needs of direct exporters without being part of a comprehensive and coherent export incentive strategy, and has been reinforced by the fact that one part of the schemes is administered by the BOT and the other part by the BET, apparently with insufficient coordination between the two. One of the consequences of putting one scheme on top of the others is that some of the schemes are mutually exclusive rather than complementary. Cash incentives such as the duty drawback or retention under the SCRS, for example, do not entitle exporters to automatic access to export credit. Another consequence is that the existing schemes do not include adequate financing mechanisms. Even the mineral-specific incentives, for example, do not provide for the financing of basic production and working capital needs that are not accommodated through the existing credit facilities of the banking system. The fact that the size of the incentive schemes is rather small, and that, in addition, they have at times been used reluctantly, has also limited their impact on exports. The following discussion of the experience with the individual schemes illustrates this general conclusion.

46. Disbursement efficiency under the SCRS is considered to have been fairly high, even though the non-performance rate was 50 per cent by 1991 [Mbatia (1993, p. 14)]. Exporters face a major constraint in using this scheme because commercial banks do not take the amount channelled through the scheme into account when they decide on the limits for export credits. This is because the scheme is managed by the BET and not by the banks themselves. Also, the lack of an investment financing component has limited the impact of this scheme on the stimulation of diversification efforts.

47. The efficiency of the retention scheme was limited prior to the Foreign Exchange Act, 1992, and especially prior to the Open General License Scheme (see the following section). Importation under the schemes was limited to a specific list of approved products, and exporters were thus subject to the usual licensing procedure when they wanted to import products which were not included in this list. The National Bank of Commerce held the retained funds in non-interest-bearing trust accounts, thereby limiting the control individual exporters had over their foreign exchange. Exporters also faced serious problems in obtaining export credit and benefiting from the retention scheme at the same time, despite the fact that the retained funds were within the banking system. By 1991, less than 50 per cent of eligible exporters could take advantage of the scheme, and in some cases, exporters had to sell their retained funds at the official exchange rate to their bank to obtain working capital [Mbatia (1993, p. 13)].

Combining the benefits of retention and credit facilities has become easier under the liberalized foreign-exchange regime but is still a problem.

48. The duty drawback scheme has been relatively inefficient. Shortages in the funds allocated in the government budget for the scheme have led to inordinate delays in reimbursement - claims have occasionally remained unpaid for a whole year. During this time, an exporter cannot obtain bank credit against the anticipated duty refund, and even if he could, interest payments on the credit would substantially reduce his entitlement, since outstanding claims do not carry interest. The lengthy procedures in applying for refunds have also contributed to these delays. In addition, the scheme has lacked efficiency as refund entitlements are limited to direct exporters, whereas they are not extended to indirect exporters, such as producers of export packaging material, yarn or fabrics for textile and garment production, or suppliers of accessories and other domestic inputs for export production.

49. The ECGS has not been widely used - the BOT processed only 60 applications during the first three years of the scheme's operation [Mbatia (1993, p. 14)]. This is mainly the result of the poor response of the financial institutions caused by the lack of an export refinancing facility for commercial banks to backup their lending operations. Commercial banks have therefore required exporters to provide considerable collateral before they even approach the BOT for a credit guarantee. The BOT has tried to persuade the commercial banks to take into consideration an exporter's performance, and thus the prospect of the business for which the credit is to be granted, rather than his capability of providing collateral.[20]

3. Export procedures

50. All exports are subject to export control and licensing, involving a considerable number of institutions.[21] Each of these institutions prescribes different requirements. This dispersion has led to costly delays and to confusion among exporters about which institution plays what specific role. Even though the BET has succeeded in reducing the number of forms needed for exportation from 15 to 6, it still takes an exporter about 7 days to have his documents processed and cleared [Ngogo (1993, p. 9)]. Export operations also lack coordination. The business community as well as the trade facilitating agencies, such as the BOT and the BET, have requested the Government to establish a one-stop export centre; however, no action has been taken so far. Government agencies argue that export control and licensing are necessary for statistical purposes and for the valuation of export items. However, export control and licensing is obviously not consistent with an export promotion strategy. It

---

[20] An exporter pointed out in an interview that in his case the persuasion took several months, even though he is the only serious exporter for the specific non-traditional commodity. He would have had to reconsider seriously his export activities had he not been able to take advantage of the scheme.

[21] These institutions include the ministries responsible for minerals, natural resources and commerce, the BOT, the BET, the Customs and Sales Tax Department, the Cooperative and Rural Development Bank, the National Bank of Commerce, the National Shipping Agencies Company, the Tanzania Bureau of Standards, the Tanzania Central Freight Bureau, and the Tanzania Harbours Authority [Ngogo (1993, p. 6)].

Text box 1
The role of the Board of External Trade (BET) in the development and promotion of export activities

The BET was established in 1978 with the objective of creating a national focal point for external trade and to advise exporters on how best to sell their goods to overseas markets. Institutionally, the BET operates under the administrative control of the Ministry of Industries and Trade. The mandate of the BET includes the provision of marketing services by, for example, providing help in selecting the appropriate export markets and meeting foreign buyers, in improving product promotion and marketing plans, and in pricing, costing and other relevant export requirements. The BET is further required by its mandate to formulate, coordinate and implement manpower training for the external trade sector and to analyse the national export performance with a view to generating inputs to the Government for the formulation of a national external trade policy and strategy. The BET is also in charge of organizing an annual international trade fair in Dar es Salaam as well as sales promotion missions to potential export markets. In addition, it carries out some administrative functions such as issuing export licences, administrating some of the export incentive schemes (see chapter III.C), and dealing with multilateral trade negotiations and compensatory finance facilities.

In order to press for needed policy improvements in the commodity sector, the BET, assisted by UNDP, has identified 13 priority products. These products include timber and by-products, marine and marine products, minerals, handicrafts, honey and beeswax, oil-seeds and pulses, horticultural products, coconuts and activated carbons, spices, textiles and garments, instant coffee and blended tea, leather and leather products, and seaweeds. Supply studies have been elaborated for these commodities, focusing on technical aspects of production capacity and quality and on export potential. Demand studies are now being prepared. The BET also organized marketing missions for textile exporters to Europe, North America and southern Africa. The trial orders obtained on these missions did not, however, lead to ongoing export activities because of insufficient quality of the exported textiles. The BET has succeeded in reducing the number of documents that exporters need to complete from fifteen to six. The present, simplified procedure for export licensing and documentation is by and large identical to those in many other exporting developing countries.

Despite these achievements, most exporters do not consider the BET as having been very supportive of their export activities. The critics argue that the BET lacks direction and that it tends to focus on export regulation or other issues related to policy advice rather than on services which are vital to export promotion such as commercial information, product development, market research and sales promotion. Regarding the latter, establishing lasting trade relationships has proven to be difficult for inexperienced exporters when the BET does not provide any follow-up services once the initial contact was made, for example on trade fairs or through sales missions. Without an effective follow-up to assess the impact of export activities on the exporting company's production processes, product development and quality standards have often been a problem for new exporters. The BET has therefore generally not been supported by the business community and not been able to serve as an effective intermediary for providing feedback from exporters on policy formulation.

On the other hand, the BET lacks sufficient financial resources, which causes constraints in terms of both the number of staff and specific technical capabilities to support adequately the needs of different industries. This lack of resources hampers the BET's promotional and development activities, in particular when account is taken of the large number of staff officers involved in routine administrative work including for the export incentive schemes.

In conclusion, the BET has not been able to provide adequate support and extension services to exporters of non-traditional exports. The development of export activities has mostly been left to the private sector, which itself is not well developed. The organization's lack of sufficient funding and its focus on policy advice has resulted in few resources being available for direct assistance to exporters. It seems, however, that a transfer of the BET's administrative responsibilities to the Ministry of Industries and Trade combined with a new emphasis of BET's work on actual export promotion and extension services and a stronger commitment of the Government to the objectives pursued by the BET could give a strong impetus to the export of non-traditional commodities.

would appear that minor changes in customs regulations could provide for the authorities' statistical needs without impairing exports.

51. The BOT has required the customs authorities to clear products for export only if the prices for these products exceed a minimum level, defined for each product separately on the basis of internationally traded high-quality products. Exporters have complained that this requirement jeopardizes the competitiveness of their goods on export markets. However, this regulation seems to have been successful in limiting capital flight through under-invoiced exports and has exerted some kind of quality control. The rationale for the latter is that exporters can be competitive on world markets with the minimum price they are required to ask only when they offer high-quality products.

D. Liberalization of agricultural marketing

52. Non-traditional commodities, in particular horticultural products, have accounted for an appreciable part of agricultural exports only since the mid-1980s, i.e. after the Government had initiated the process of economic reform. These commodities have thus enjoyed a much more liberalized marketing system than traditional agricultural export commodities.[22] However, given that a number of non-traditional export items are closely linked to traditional sectors (e.g., textiles to cotton, and sisal twine and rope to sisal fibre) and that a strong traditional commodity sector can be regarded as having been an important condition for a successful diversification strategy in many countries, this section provides a short discussion of economic adjustment in the traditional agricultural sector.

53. Pre-reform official agricultural policy in the United Republic of Tanzania was characterized by the state monopoly over domestic marketing and exports. This policy was institutionalized in the single-channel marketing system under which the State acted as the sole provider of inputs and marketing services, prices were determined by the Government for each stage of the marketing chain (farmers - primary societies - cooperative unions - commodity-specific marketing boards - consumers), and all export activities were conducted through the marketing boards for the respective commodity. The broad objective of this policy was to raise the standard of living of the population, in particular in rural areas, and to contribute to the achievement of self-reliance.

54. Operating a single-channel marketing system for export crops had a very

---

[22] The impact of the different marketing structures for traditional and non-traditional export crops on commodity-cost structures has been analysed in detail by the World Bank [World Bank (1992, pp. 24-53)]. The analysis led to the following conclusions [ibid, p. 23]: (a) Exportation of most of the traditional crops is not profitable at the official exchange rate. Except for cashew nuts, profit margins are negative and exports are not competitive. Exporters thus incur more cost than they earn income. (b) Exportation of all studied non-traditional export crops is profitable. They are competitive and profit margins are significantly higher than for traditional export crops. (c) Tanzania has a strong comparative advantage in both traditional and non-traditional export crops. At the market exchange rate and with improved marketing efficiency, the traditional export crops are highly profitable. (d) The net foreign exchange benefit is significantly higher in the case of traditional export crops than for non-traditional ones. This clearly demonstrates the importance of traditional exports in terms of foreign exchange earnings.

substantial impact on producer prices. Table 5 illustrates the effect of the presence of parastatal marketing intermediaries on the share of export proceeds that were received by producers. The evidence suggests that in the years following the massive devaluations, the wedge between the fob price and the production price for export crops grew, marketing parastatals absorbing an increasing share of the world market price. The positive effect of the devaluations on producer prices was thus offset. The wedge was primarily the result of a rise in the costs incurred by the marketing boards. The increase in these costs was caused to a substantial extent by the rising interest rates - a measure adopted in combination with fiscal consolidation to curb inflation. The fact that the marketing boards had accumulated a considerable stock of debt made their costs very sensitive to changes in interest rates. Over this period, producers of traditional export crops had thus an incentive to switch out of those crops into other agricultural activities. The substitution of cotton for rice production in the late 1980s (see below) is an example of this.

Table 5

Relative prices of agricultural exports in the United Republic of Tanzania, 1983-1988 (in units of imports cif)

	1983	1984	1985	1986	1987	1988
FOB price	100	90	105	115	80	93
Producer price	100	119	130	86	64	61

Note: Crops included in agricultural exports are coffee, tea, cashew nuts, pyrethrum, tobacco and cardamom.

Source: Bevan et al. (1993, p. 26)

55. In addition to their absorption of higher margins, marketing boards provided only poor services to the farmers. Farmers often had to make repeated visits to the buying centres of primary societies to sell their crops, and payments were frequently delayed (sometimes for up to two years). Timely delivery of inputs of the right sort was rare, with the result that production fell short of its potential as fertilizers were not at all or inappropriately used and seedlings were often planted too late.

56. A key element of reforms in agricultural marketing has been to minimize the financial burden of crop marketing activities. The rationale for the adopted approach is that smallholders produce the entire agricultural output in Tanzania, apart from a few crops such as sisal, tea and sugarcane, which are grown on estates. As it is generally recognized that smallholders are price-responsive as long as non-price factors such as marketing systems do not hinder their response, the main thrust of Tanzania's reform strategy has been, firstly, to create an efficient agricultural marketing system, and then, to liberalize prices in order to allow smallholders to respond to price signals. The adjustment measures in the agricultural sector have accordingly included the gradual liberalization of marketing and prices.

57. Adjustment measures initially focused on reducing the restrictions to private sector participation in cereals trade. The positive supply response by smallholders to price incentives brought about by the reforms led to a considerable decline in the real consumer price of the main staple, maize, and of other cereals in the marketing seasons following price liberalization [Marketing Development Board (1992, p. 32)], and contributed to an increase in production, a rapid decline in cereal imports, and a more efficient domestic marketing of cereals, thereby sharply reducing the claims on the financial system and the Government budget. The private sector has, however, been responding slowly to market signals in the cereals sector, mainly because official channels were abolished before a legal environment conducive to private sector activity to fill the void in distributing the commodities adequately was created. The major shortcoming is that private trade in grain is not officially allowed. Policies and legislation which forbade private traders to deal in agricultural crops and inputs have not been abolished. The Government's ultimate intentions with respect to private-sector involvement in the traditional agricultural sector has thus been uncertain.

58. The export marketing of non-traditional agricultural export commodities, such as oil-seeds (with the exception of cotton seeds) and pulses, was the responsibility of the General Agricultural Products Export Corporation (GAPEX) until 1986. In that year, GAPEX was dissolved and the cooperatives took over marketing responsibility. In the crop year 1989/90, the marketing of oil-seeds and pulses was liberalized allowing private traders to operate alongside cooperatives [Ministry of Agriculture (1992a, p. 26) and (1992b, pp. 6-8)].

59. The Government has recently started to reform the marketing of traditional export crops. The general approach is to turn marketing boards into agents and let the cooperative unions own their crops. Because the cooperatives used to operate very inefficiently, the reform includes legislation defining the relationship between the cooperatives and the Government, specifying that the cooperatives are voluntary organizations of their members, are the responsibility of their members including financial liability, and can be registered only if financially viable. The Government maintains a monitoring role. This reform liberalizes but does not privatize crop marketing since private traders will be operating in competition with the marketing boards. The boards will also organize auctions in order to allow transparency of operations. Beginning in July 1990, the marketing boards for coffee, cotton and cashew nuts officially stopped buying and selling crops. Their function is supposed to be limited to providing basic marketing services such as administering export auctions or tender procedures, providing market intelligence, and acting as marketing agents on a fee basis. However, owing to the unsure legal basis for private-sector activities and the resulting hesitation of the private sector to fill the void, the marketing boards have, in fact, been asked by the Government to execute many more functions than they are supposed to under the reformed system. These additional functions include the provision of production inputs and credits as well as quality control.

E. Monetary and credit policies

60. It seems that the degree of macroeconomic stability necessary for continued export growth has not yet been achieved. Prior to the recently adopted marketing reforms, requiring cooperatives and parastatals to be financially viable, commercial banks met the excessive credit requirements of agricultural parastatals, cooperatives and some public industrial companies without adequate

economic or financial review. This was due mainly to the fact that alternative marketing channels did not exist. As a result, the consolidated fiscal deficit of the public sector was very high even though fiscal targets for the government budget alone have generally been met over the ERP period. The excessive consolidated fiscal deficit was a critical factor in explaining the annual money supply growth of about 30 per cent between 1986 and 1990, thus contributing to persistent monetary imbalances - the annual inflation rate was 30 per cent during this period and has since been around 20 per cent - and downward pressure on the exchange rate. The high rate of inflation has necessitated larger devaluations in order not to impair competitiveness too much. The fact that the Acts restricting private sector marketing activities have not yet been amended has contributed to the prevalence of uncertainty regarding the Government's fiscal and monetary policies, with the result that probably many exporters have adopted a "wait and see" attitude, knowing that policies assuring a stable and competitive real exchange rate can only become better.[23]

61. In addition to having become an impediment to macroeconomic stability, the performance of the financial sector has had an increasingly adverse impact on resource allocation throughout the real economy. The fact that the share of export financing in total bank credit has been "negligible"[24] is a sign of serious credit misallocation in a country that intends to foster exports. Exporters continue to complain about the difficult access to credit. Relationships with banks are frequently described as "nightmares".

62. The fact that exporters can access the formal credit market only with great difficulty is part of the overall unhappy relationship between private indigenous companies and formal financial institutions. As a matter of fact, there are virtually no trade credits for small and medium-sized enterprises (SMEs). The combination of pervasive banking inefficiencies and a legal system which provides only limited and uncertain recourse has contributed to the virtual breakdown of the use of cheques in the United Republic of Tanzania. This in turn has been partly responsible for the absence of trade credits. Another problem lies in the arduous conditions that SMEs must meet to qualify for loans. Loan applicants must, for example, provide fixed property as collateral. Given that leasehold land titles are the only form of land title permitted in the United Republic of Tanzania and that banks refuse to recognize those titles as collateral, only applicants who have erected physical structures on their land can borrow and the amount of the loan is limited to the value of the physical structures. Whereas a commercial loan takes the form of an overdraft facility, which in other countries is typically used for the provision of working capital, in Tanzania loan applicants must, along with collateral, provide both a detailed financial statement and a detailed feasibility study of their planned investment. Further, even when they provide all these elements, companies have to reckon on an average of six months for the processing of loan applications and be prepared to make side payments as a precondition for processing.

63. In conclusion, it appears that banks in the United Republic of Tanzania

---

[23] For evidence on the depressing impact on exports of uncertainties regarding the real exchange rate, see R.J. Caballero and V. Corbo (1989): "The Effect of Real Exchange Rate Uncertainty on Exports: Empirical Evidence", in: World Bank Economic Review, vol. 3, No. 2, pp. 263-278.

[24] Note in a recent report by the Banking Commission to the President, as referred to in BoI (1993, p. 11).

do not view their lending to (potential) exporters in developmental terms, with the objective of identifying and supporting commercially promising companies. Rather, exporters feel that banks perceive them as unwelcome supplicants, with whom the banks do business only if stringent conditions are met and, even then, only if the company accepts without questioning the putative complete knowledge of the lending agency. In other words, "... the banking system can be regarded as primarily a device for giving money to the managers of public entities to use at their discretion" [Bevan et al. (1993, p. 60)].

F. Investment policy

64. The adjustment measures adopted in the mid-1980s seem to have led to a positive investment response. Investment increases after 1986, in fact, more than compensated for the strong decline in the early eighties and by 1990/91 the investment-GDP ratio had doubled with respect to its level of the late seventies (see table 6). The growth of private investment accounted for all of this improvement, moving from an average of 7.7 per cent of GDP during 1980-1985 to 15.7 per cent during 1985-1990, as public investment continued to decline [BoI (1993, p. 18)]. The manufacturing and transport sectors attracted most investors, while investment in agriculture and trade was still low.

Table 6

Investment as percentage of GDP, 1978-1991

1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
25.2	26.1	23.0	24.7	21.0	13.6	15.3	15.7	19.5	30.3	30.6	34.5	47.6	40.9

Source: International Financial Statistics

65. However, part of the seemingly positive investment response can be attributed to the rapidly rising import prices following the successive devaluations of the shilling, which automatically increased the price of imported capital goods. This may explain why according to official figures, nominal gross investment, but not investment in real terms, grew after 1986. Concern has also been caused by the fact that there seems to be a bias towards investment in non-traded goods, in particular private construction, rather than in tradables, contrary to what might have been expected after the shift in relative prices in favour of tradables. The limited availability of domestic finance for investment[25] has meant that aid flows and the foreign community provide most of the sources for investment.

66. The stagnation in investment volume can be attributed to several factors including inadequate demand, uncertainty over the course of policy reforms, and weak financial markets. The fact that the existing production capacity is still largely under utilized, combined with the low purchasing power on the domestic market and the lack of an export culture, obviously limits the incentives for

---

[25] Despite the high increases in nominal interest rates for savings deposits, allowing real interest rates to become positive, the ratio of domestic savings to GDP deteriorated to 3.5 per cent in 1990 from the already low level of 5.5 per cent in 1986 [Change, volume 1, February 1993, p. 11].

investment. This is exacerbated by the still existing widespread mistrust among the business community with respect to the future course of liberalization and the continuous ambivalent attitude towards the private sector by the Government. The hesitancy in proceeding with financial sector reform is a major cause for this concern. Another reason for the stagnation in investment may be supply-side related. Fiscal consolidation and tight domestic credit have been key factors of structural adjustment. These factors, combined with the very weak financial market, have limited the domestic financial resources for investment.

67. The response of direct foreign investment to economic adjustment has been rather disappointing, with a total of US$ 10 million as at mid-1991 [ibid.]. In recognition of the important role of domestic and foreign private investment for the development of the economy, the Government introduced the National Investment (Promotion and Protection) Act in February 1990, amended in 1992. This new investment policy significantly departs from that applied after 1967, which explicitly and vigorously emphasized the promotion of public sector investment and offered only limited guarantees against nationalization without compensation. The new investment policy also offers a package of investment incentives including an initial five years corporate tax holiday, customs duty exemptions, foreign exchange benefits, the right to lease land and the provision of a legal framework designed to give due guarantees to domestic and foreign investment. The Government identified nine priority areas (agriculture and livestock development, tourism, natural resources, mining and petroleum development, manufacturing industries, construction, transport, transit trade, and computers and other high technologies) in which it encourages domestic and foreign investment, both public and private, as well as joint ventures. Investment in a number of areas is reserved exclusively for the public sector and Tanzanian citizens [Planning Commission (1990a, pp. 4-6)].

68. The Government established the Investment Promotion Centre (IPC) in July 1990 to provide for the effective implementation of the new investment policy by creating a one-stop centre for investment, information, advice and approvals, as well as licences and certificates. The functions of the IPC include [Planning Commission (1990b, pp. 10-11)] promotion of investment through publicity and the identification of investors and joint venture partners, evaluation of applications with a view to issuing Certificates of Approval, assistance to the Government in designing investment policies and strategies, and coordination of private investment activity in the United Republic of Tanzania. Up to September 1992, the IPC approved 392 investments worth T sh 210 billion of which T sh 153 billion were joint ventures (mainly in agriculture, tourism, transport, natural resources and minerals): 59 investments were fully financed by foreigners [Kahama (1993)]. Many of the approved investments are in the export sector, including marine products, horticulture, minerals and forestry products. According to the IPC over half of those projects are already being implemented, pointing to a potential recovery of non-traditional exports in the near future [ibid.].

G. The impact of general government policies on diversification

69. Considering that the own-funds import scheme was introduced in 1984 and devaluations started in 1986, it is tempting to attribute the large increase in non-traditional exports between 1986 and 1990 to these policy changes These two changes may, in fact, be seen as the first real signs of the Government's will to correct the serious anti-export bias that had built up in the years before. This seems to be the case in particular for manufactured exports, which performed best among non-traditional exports, growing from US$ 33 million in 1985 to US$

103 million in 1990 [see table 1]. What is more, given that the manufacturing index went up from 100 in 1985 to only 117 in 1989, before it slightly dropped back to 114 in 1990,[26] the share of exports in total manufactures production (which indicates the export orientation and relative competitiveness of the country's products) substantially increased in the second half of the 1980s.

70. However, given the limitations imposed on development by the still poor state of general infrastructure, the lack of a reliable legal basis for private enterprise and of comprehensive reforms in the financial sector, and the general limitations in domestic financial means for investment, the increase in non-traditional exports after 1986 seems surprising. The difference in marketing structure, i.e. single-channel marketing for traditional exports and multi-channel marketing for non-traditional ones, may therefore be considered a crucial determinant for the stronger supply response to macroeconomic adjustment in non-traditional commodity exports compared to traditional ones. The strong supply response to marketing liberalization in food crop production that occurred at the same time gives support to this conclusion. The drop in non-traditional exports since 1990, however, raises doubts as to the sustainability of non-traditional exports on the basis of reformed macroeconomic policies and marketing liberalization alone.

71. Even though signs pointing to an encouraging recovery of non-traditional exports after 1986 cannot be denied, it appears that a substantial part of this rise was due to "forced" exports, i.e. export activities designed to obtain the necessary foreign exchange to import production inputs and spare parts in order to maintain the viability of domestic production - an exercise that was not repeated afterwards.

72. The increase in non-traditional agricultural exports (such as horticultural products, animals and animal products, and forestry products) during the second half of the 1980s and their following decline to initial levels may be attributed to the easing of imports combined with consumer price decontrol; both measures were introduced in 1984. Several authors argue that in the mid-1970s the United Republic of Tanzania adopted a set of macroeconomic policies, including strict price control, priority treatment of capital goods in imports, and an official allocation of consumer goods that was increasingly skewed towards the cities. This led to a shortage of consumer goods (such as clothing, sugar, soap, cooking oil, kerosene, salt and matches) in rural areas. Expenditure was therefore not a choice variable for rural households that faced generalized shortages of consumer goods, with the result that the availability of such goods became the most important determinant of changes in agricultural production rather than conventional price relationships. When faced with shortages, peasants respond to rising crop prices by reducing sales in order to maintain income at the level of constrained expenditure whereas, in 1984, the removal of consumer price control and the simultaneous introduction of the own-funds import scheme re-established market clearing. Peasants reacted to price incentives by raising output of food crops as well as of those cash crops for which the marketing boards did not appropriate the higher margins, i.e., non-traditional agricultural exports. Once the peasants' previously repressed demand for consumer goods was satisfied they went back to more normal levels of

---

[26] The Economist Intelligence Unit Country Report No. 1, 1993.

production.[27] Given that the adopted policy measures continued to be in place after 1990 but that non-traditional agricultural exports nonetheless dropped, this outcome suggests that the adjustments in macroeconomic policies in the mid-1980s were the first steps towards providing an enabling, as opposed to a disabling, environment for non-traditional agricultural exports, but that the scope of these reforms has to be widened and that complementary sectoral policies must be designed to make a more sustainable growth of those exports possible.

Chapter IV

DEVELOPMENT IN SELECTED COMMODITY SECTORS WHERE DIVERSIFICATION HAS OCCURRED

A. Mining

1. General developments

73. The Tanzanian mining sector[28] is governed by the 1979 Mining Act, which is in the process of being updated. Legally, mining and trading activities were the monopoly of the State Mining Corporation (STAMICO) until 1983. The poor performance of STAMICO was a major factor contributing to the development and expansion of a parallel market for gold and gemstones during the 1970s and 1980s, with smuggling as its major export channel. In response to this development, the Government launched the Mineral Liberalization Policy in 1983, providing for the licensing of private companies to mine and export gold as well as to buy, cut and export gemstones mined by small-scale miners. With the adoption of the investment promotion policy in 1990 [see chapter III. F], the Government decided that government majority participation in mining ventures was no longer mandatory and that, irrespective of the level of government ownership of a mining company, mining operations remain the sole responsibility of the investor. The implementation of existing mining agreements has, however, caused a number of problems.

74. The fact that mining companies have been given claims that had already been allocated to small-scale miners has, for example, led to some violent confrontations between small-scale miners and mining companies. In addition, given that most of the foreign investors finance their imports of equipment from own resources and that there are no clear guidelines for assessment of investment and operational costs in foreign exchange, the calculation of net returns and of the basis of assessment for tax payments is very difficult. This could eventually undermine the country's national interest in the mining sector. Moreover, it appears that income tax regulations requiring the applicant for a prospecting licence to pay between T sh 15,000 and T sh 100,000 up front have acted as a deterrent to recorded investment and favoured illegal prospecting and smuggling. Domestic private investment has also been hampered by the lack of working capital; dealers, for example, cannot put their stocks of stones into commercial banks as collateral for credit.

---

[27] See, for example, Bevan et al. (1993), Collier and Gunning (1991), and World Bank (1991b, pp. 8-36).

[28] For a full account of the geological basis of Tanzania's mining sector, see: Tanzania Country Supplement, in: Mining Journal, volume 320, 23 April 1993.

75. Regarding marketing in the mineral sector, the Government introduced mineral-specific incentives in 1988 and 1990 with a view to curbing illegal exports and raising the country's official foreign exchange earnings. In 1988, private dealers were allowed to operate in the mineral sector and the export retention level for minerals was raised to 70 per cent as compared to 35 per cent, the level applied to other non-traditional exports at the time. In 1990, the BOT started to purchase gold at "premium prices" and introduced a foreign-exchange entitlement system for gold exporters [see chapter III. C].

2. Gold

76. Gold mining on the territory of the United Republic of Tanzania started in 1920[29]. With the adoption of trade sanctions against the Republic of South Africa in 1961, gold prospecting as well as large-scale mining disappeared. This was a result of the fact that all major prospecting firms either were based in the Republic of South Africa or imported their mining inputs from there. However, despite the fact that foreign direct private investment ceased to flow into the gold sector, production did not decline because small-scale mining[30] continued to exist and contributed to the emergence of a thriving but unrecorded activity.

77. In response to this situation and to the increase in gold prices on the world market in the early 1980s, STAMICO tried to reactivate gold prospecting as well as large-scale, recorded gold production. The joint-venture production-sharing agreement between STAMICO and Dar Tadine Tanzania Ltd. in fact dominated gold exploration during the early 1980s. The licences that were given to this joint venture were, however, not renewed in 1991 because of its non-fulfilment of the exploration obligations specified in the licences. The failure of the joint venture was the result of the Government's fiscal crisis that prevented the massive injection of capital which would have been required to reactivate gold exploration and large-scale mining by STAMICO. This event also gives evidence of the lack of enforcement of the mining law through the Government. Private foreign companies returned to the gold sector in response to the Government's liberalization policy that was started in 1984 and expanded in 1990 [see chapter III. A above]. However, none of the 20 foreign companies that by 1992 had acquired licences for gold prospecting and mining have opened any new mines. Instead, they have concentrated on exploiting mining sites discovered by small-scale miners. The major reasons for this way of proceeding are that most of the promising geological structures are covered by widespread lateritic soil, which makes prospecting and opening big new mines too costly, and that new mining technologies allow for the recovery of gold from easily accessible sites which previously were considered to contain gold of too low a grade to merit corporate investment.

78. Establishing the only government support policy in the gold sector, the BOT started in 1988 to build a network of mobile officially licensed dealers, who go to the sites of small-scale miners and buy gold directly from them at the premium price. This illustrates the fact that the Government's primary objective in the gold sector is to attract trading activity into the official marketing channel rather than to stimulate investment and production. The result of the policy measures adopted is that officially recorded volumes of gold purchases

---

[29] See Chachage (1993, pp. 6-9) for a detailed description of the history of gold mining on the territory of the United Republic of Tanzania.

[30] Production methods of small-scale miners are simple and labour-intensive. Mechanized equipment is available only occasionally at their sites.

increased from 116 kg in 1989, to 1.65 t in 1990, 3.6 t in 1991, and 7.24 t for the first half of 1992. It is nonetheless estimated that at least 50 per cent of the country's gold production is still smuggled out [Chachage (1993, p.3)]. Regarding export earnings, table 1 shows that the value of officially recorded gold exports rose dramatically from US$ 1.5 million in 1989 to US$ 30.1 million in 1991.

3. Gemstones

79. Gemstone mining on the territory of the United Republic of Tanzania started in the early 1960s following the large expansion of jewellery activities in Europe. The Government manifested its interest in the sector only in 1971 when the parastatal Tanzania Gemstone Industries (TGI) was established as a subsidiary of STAMICO. The primary objective of TGI was to purchase and market all the gemstones extracted by small-scale miners. However, TGI performed poorly and did not succeed in attracting the trade in high-value stones into official channels. For example, Tanzania has no control over the mining and marketing of tanzanite, a precious stone whose value is second only to that of diamond and whose only known reserves are found in Tanzania. Similarly, the best rubies found on the world market continue to be exported by Thailand although it is known that that country's reserves are exhausted. The major destination of ruby exports from Tanzania through unofficial channels seems to be Thailand.[31] TGI was often considered as a buyer of last resort for low-quality stones. The fact that until 1988 TGI bought all gemstones irrespective of their quality was the major reason for the development of unrecorded trading.

80. In response to this situation, the Government changed the marketing system for gemstones in 1988 and 1992. Between 1988 and 1992, the official marketing channel was characterized by dealers' purchasing gemstones from miners or intermediaries for direct export. Even though an annual export target of US$200,000 had been set, the average value of exported gemstones per dealer did not exceed US$ 17,000, i.e. less than 10 per cent of the target [BOT (1993, p. 16)]. This is another illustration of the non-enforcement of the mining law by the Government. Marketing liberalization has also led to a drastic drop in TGI's exports; export earnings have continuously fallen, the drop from 1991 to 1992 alone being from US$ 160,000 to US$ 53,000.[32] Another important consequence of liberalization was that small-scale miners were deprived of any valuation and pricing information system for both local and export markets. These services were previously provided by TGI. Due to the Government's policy of fiscal retrenchment TGI has not received any funds to carry out market research, attend fairs or subscribe to journals, which would have allowed it to keep abreast of market developments. Small-scale miners thus have no independent information when they sell their stones to dealers. The virtual absence of government support structures such as a valuation and pricing information system is particularly serious for a commodity such as gemstones because of the fact that each stone is different. Market transparency is therefore absent and the small-scale miners have practically no price reference when they negotiate with dealers.

---

[31] Thailand's success in gemstone processing and exporting can be attributed to the heat treatment technology developed in Thailand along with the traditional skills of this country's artisans. The heat treatment technology makes it possible to convert low and medium-quality stones into high-grade stones [BOT (1993, p. 19)].

[32] According to indications from a TGI official.

81. The introduction of local and international auctions in 1992 was designed to overcome the lack of market transparency. The local auctions have so far attracted mainly producers. It is estimated that on average an auction is attended by 200 miners and only four to five dealers. Only good-quality stones can be sold at the auctions, causing wastage and unsatisfactory returns to miners. These two characteristics of local auctions may discourage the miners and eventually lead to a collapse of the auction system. International auctions, by contrast, seem to have been relatively successful. Sales worth US$ 163,000 and US$ 240,000 were generated in the first two auctions held at Arusha in May and November 1992 with sales of tanzanite and ruby accounting for 40 per cent of the total [BOT (1993, p. 17)]. The best stones were, however, not traded at the auctions. Given that the rate of export earnings retention in the parallel market is 100 per cent, sellers were probably taking into account the better prices achieved there. Sellers may also have been discouraged by the participation fee of Tsh 25,000 in May 1992 (which corresponded to about US$ 100 at the official exchange rate) for non-members of the association that has organized the auctions, the Tanzania Mineral Dealers Association (TAMIDA). The fact that participation in auction trading has not been balanced between buyers and sellers and that international auctions have been conducted by TAMIDA, which has vested interests in gemstone dealing rather than in the representation of miners, has raised doubts as to the improvement of market transparency through the introduction of auctions.

82. It has also been noticeable at these auctions that buyers prefer raw stones. The lack of computerized cutting in Tanzania means that there cannot be a series of stones all cut the same way - as needed, for example, for necklaces. Plans to introduce computerized cutting and to establish a domestic jewellery industry have been proposed to the Government by TGI. However, government action still concentrates on the trading side rather than contributing to the generation of value added, despite the fact that polished gemstones fetch a much higher price on the international market than rough ones.

83. The result of the Government's efforts to attract gemstone exports into the official marketing channel is mixed. Whereas gemstone exports rose from US$785,000 in 1989 to US$ 5,210,000 in 1992[33] this rise in earnings seems to have been far below its potential, considering the country's endowment with gemstones and the amount and kind of stones that were actually traded at the auctions.

4. Conclusion

84. To summarize, despite the fact that mining has been the only commodity sector in Tanzania to receive special attention from the Government, policy makers seem not to be fully aware of the potential of the mining sector, especially that of the gemstones industry. The focus of Government policy has been to attract dealers in the mining sector into official trading channels, thereby raising recorded exports. However, concentrating on the needs of miners rather than on those of dealers, e.g. by introducing appropriate prospecting methods and mining technologies, strictly adhering to licensing procedures, improving extension services with respect to valuation, grading and pricing, and providing for the trickle-down of export retention to the miners rather than just to the dealers, would probably have improved the production as well as the marketing conditions of gold and gemstones and hence possibly raised export earnings far beyond the actually obtained levels. In particular, the existing

---

[33] Data for gemstones from BOT (1993, p. 21); note that these figures are not consistent with table 1.

lack of interaction between the Government and miners, combined with the informality of mining activities, seem to have encouraged miners to adopt short-term objectives for their activities including trading through the parallel market, which raises some doubts as to the sustainability of the Government's strategy. In conclusion, Tanzania's experience in the mining sector shows that appropriately designed and implemented government policy can attract existing production and trading activities into official channels and support new activities, in particular for the generation of value added.

B. Horticulture

85. Table 1 shows that the horticultural sector has provided the most dynamic stimulus to non-traditional exports in the agricultural sector over the last few years. However, both the marketable production and the number of companies involved in horticultural exports is still small. Although 30 companies are registered with the BET, the bulk of horticultural exports is done by three companies producing and exporting fruit and vegetables and two companies producing and exporting flowers.

86. Many more people were active in horticultural exports in the second half of the 1980s, following export-marketing reforms in the agricultural sector (see Chapter III. D). The companies that became involved in horticultural exports were, however, mostly traders who purchased their produce from local farmers. Difficulties in obtaining the right product in the quantity and of the quality required to satisfy the demand on export markets were a major constraint to their export activities. It seems that these companies failed to establish a formal relationship with farmers that would have allowed them to determine both the quantity and the quality of the production of a specific item at any one time. Another constraint on these companies was that they were not located in the Moshi-Arusha region. This would have provided them with easy access to spare parts, e. g., for cold storage equipment, since companies located in that region can obtain such items within one day from Nairobi. The non-farmer exporters went out of business after just one or two years of activity, discouraged by both the unfamiliar requirements on export markets and the difficulty in providing the necessary products on time. This may explain the rise and fall of horticultural exports between 1986 and 1990.

87. Regarding the institutional support to the horticultural sector, the Officer for Horticultural Development of the Crop Development Division of the Ministry of Agricultural (MoA) is the Government's agent responsible for the sector. The marketing of horticultural products is, however, not part of the Officer's mandate and the MoA has not become active in post-harvest handling either. The MoA is, in fact, constrained in its support to the production and development of the horticultural sector by its inadequate human and physical resources. The BET and the BOT seem to face similar constraints. In response to the lack of support from the Government, the Tanzania Horticultural Producers and Exporters Association (TANHOPE) was created by businessmen in 1990. Its objectives include the regulation, supervision, promotion and coordination of trade in horticultural products, with a view to increasing the capacity to produce high-quality and reliable quantities both for domestic and export marketing. However, TANHOPE's activities have suffered from under-capitalization and relatively poor organization. A geographical gap caused by the fact that TANHOPE's management is located in Dar es Salaam while most of the dynamic exporters operate in the Moshi-Arusha area has further weakened the implementation of TANHOPE's mandate.

88. Most of the successful companies[34] are foreign investors from Europe, in particular in the export of cut flowers and French beans, the most successful items within horticultural exports, or have close family ties with successful horticultural exporters in Kenya. This has provided these companies with the necessary knowledge of how to operate in a very flexible market and where to get the necessary market information and financial resources. The managers of these companies also have close ties with their markets in Europe, partly because they started doing business in the United Republic of Tanzania from Europe or because they had spent several years there for education. These close personal ties with the export markets have proven to be of considerable help in keeping abreast of market developments. The manager of Sunripe, a small exporter of vegetables that started business in 1991, for example, reported that he spends six months a year in Europe, visiting customers and working out approximate dates and prices of shipments in order to be able to plan production and air cargo space, because telecommunication services are poor and very expensive and market intelligence services are absent.

89. Both major flower-exporting companies, Tanzania Flowers (TF) and Kiliflora Ltd, were established by a Dutch family. TF started in 1987 to produce and export several kinds of flowers to flower auctions in the Netherlands and, more recently, to Scandinavia. Kiliflora was created in 1992, concentrating on the production of roses exported to the Netherlands. A third albeit small flower exporter, Omparted Estates, was also established by a foreign investor in the 1980s. The company was initially set up as an ostrich farm but later diversified into cut flowers and vegetables. The company's production, post-harvest handling and marketing activities are managed by a Dutch specialist.

90. The impressive increase in the export of oil-seeds and pulses over the last five years (see table 1) is mainly the result of French-bean exports by the Equatorial Progressive Company Ltd (EPCL).[35] Like the flower-exporting companies, EPCL was established by a European investor, the Dourcy family from Belgium, in the Moshi-Arusha area in the second half of the 1980s. The company obtains its produce from about 1,000 very small growers and from land that it has leased from local coffee cooperatives. The main export destination is France, where the produce is handled and marketed by a partner.

91. Chrismill Farms is an exception among the successful companies exporting horticultural products as the company was created and has been managed by a Tanzanian, is located in the coastal plain rather than the Moshi-Arusha area, exports fruit (pineapples) rather than vegetables and flowers, did not have personal ties to its export markets when it started to operate, exports to the Middle East and not only to Europe, and plans to export processed products by going into the production of concentrated pineapple juice. The company, which started to operate in 1986, mainly grows its produce on its own land as the manager found it difficult to establish a network of growers who could produce the required quantity and quality of pineapples on a reliable basis. The company's export activities suffered a temporary setback when a disease sharply reduced the quantity and quality of its production and caused the disruption of exports to Europe. Production has since recovered however.

---

[34] The following company-specific information is based on ITC (1993) and interviews held with company managers and government officials in May 1993.

[35] A government official pointed out in an interview that part of the particularly steep increase in these exports in 1992 reflects food aid to Somalia and Mozambique.

92. SIMA International is also owned and managed by a Tanzanian. The company grows chillies on its own farm and buys various fruits and vegetables from local farmers in the Dar es Salaam area. It exports these products to the Netherlands, the United Kingdom, Germany and Austria.

93. The above examples show that export success in the horticultural sector is mainly due to the initiative and management ability of individuals, a sizeable proportion of whom are foreign investors, and that this success has been obtained with little support from the Government. In fact, it appears that the major constraints to growth of the successfully operating companies in this sector include poor infrastructure, difficulties in obtaining bank loans and a lack of market intelligence services, i.e. support services that in most successfully diversifying countries have been provided by the government.

94. Infrastructural constraints include the fact that only four to five flights a week can take produce out of Kilimanjaro International Airport (KIA) whereas many more had been expected (there are, for example, 40 flights a week leaving Nairobi). There are a number of other flights a week that can take horticultural products out of Dar es Salaam International Airport (DIA). However, given that most exporters would have to transport their produce from the Moshi-Arusha area to Dar es Salaam by road, the conditions of which are poor[36], and that there is a lack of refrigerated trucks, taking advantage of this opportunity has been difficult and costly. Air cargo space is further limited by the fact that most flights from KIA have a stopover in Nairobi. Airlines have long-lasting arrangements with well-established exporters in Kenya and therefore hesitate to reallocate scarce cargo space to exporters from the United Republic of Tanzania. This could change only if Tanzanian exporters could guarantee a steady supply of produce and were prepared to pay for the reallocation of space. Air cargo space has also been constrained by the fact that the domestic airline discontinued its direct flights to Europe in March 1992 after only nine months of operation and because current regulations allow foreign carriers to convert only 50 per cent of the air freight costs in Tanzanian shillings into foreign currency.[37] The latter may also be the reason for the fact that the airlines charge Nairobi rates.[38] By contrast, government support had allowed Kenyan exporters of horticultural products to obtain cheap freight rates when they were at a stage of development similar to that now reached by their Tanzanian colleagues. The Tanzanian Government also appears not to have any plans to promote tourism, or more specifically to upgrade hotel services and improve roads to game parks, a factor that was crucial in developing the horticultural sector in Kenya.

---

[36] The rehabilitation of the road between Dar es Salaam and Kilimanjaro Airport, which was undertaken as part of the Integrated Road Programme, has recently been completed, substantially improving the conditions for road transport.

[37] This share was raised to 100 per cent in mid-1993.

[38] Air freight rates from the United Republic of Tanzania to Western Europe are about US$ 1.20 per kg.

95. The problem of shipment is exacerbated by the lack of functioning cold storage facilities at the airports. Cold storage rooms at DIA are inadequate and unsuitable for horticultural products, while the only appropriately designed and functioning cold room at KIA is owned and operated by TF. This lack of adequate cold rooms has compelled exporters to store their produce in refrigerated trucks. Receiving tax exemption from the Investment Promotion Centre to invest in refrigerated trucks has, however, involved substantial administrative problems. Moreover, recurrent power cuts have led to considerable losses as well as to the need for exporters to invest in stand-by power generating machines. It is, however, almost impossible for horticultural exporters to get loans from commercial banks because their produce is easily perishable and therefore not accepted as collateral. Exporters from the Moshi-Arusha area seem not to have faced major problems in obtaining appropriately designed, high-quality cartons for horticultural packaging as they can access the output of companies in Nairobi. One of the two Tanzanian companies active in this sector, the parastatal Kibo, by contrast, has operated inefficiently and produced relatively expensive (two to three times the price of Kenyan companies), poor-quality cartons. The other Tanzanian company in the sector, the private firm Twiga Packaging Ltd, produces fibreboard cartons but lacks the equipment required to produce horticultural packaging material.

96. In conclusion, export success in the horticultural sector has mainly been due to the initiative of capable individuals who started their businesses in the United Republic of Tanzania in the aftermath of the abolition of GAPEX, the parastatal that had been in charge of export marketing of miscellaneous agricultural products, including horticultural products, until 1986 (see chapter III. D). The Government has not given much support to production and export of horticultural items by these private companies. The inadequate infrastructure at airports has, for example, jeopardized the maintenance of the high-quality standards required for horticultural exports and severely constrained export expansion. The majority of companies in this sector are owned or managed by foreigners who have taken advantage of the country's fertile soil and other favourable climatic conditions. These companies' activities could be relocated relatively easily if they do not obtain adequate support. The continuous lack of government support in this sector thus could eventually lead to a strangulation of horticultural exports.

C. Sisal

97. Sisal was the most important single foreign exchange earner in merchandise trade of the United Republic of Tanzania in the 1960s.[39] Peak sisal production

---

[39] The traditional end-use of sisal is in baling twine for agricultural purposes. The United Republic of Tanzania has been among the world's leading sisal producers, together with Brazil and Kenya. With the introduction and continuous extension of the use of polypropylene for baling, a by-product of petroleum refining which allows for the production of twine of a fineness that could not be achieved from sisal, and the adoption of bulk handling and large baling techniques which require less twine than the traditional baling methods, the consumption of sisal has experienced a severe decline world wide during the 1980s. Other more recent factors contributing to the fall in sisal consumption include foreign-exchange shortages in the former Soviet Union and other eastern European countries since the late 1980s and the present world economic recession. The latter has in particular contributed to a temporarily decreasing demand for non-harvest twine end-products such as geo-textiles, used to cover materials such as soil or rock, or sisal pulp which is used as reinforcement for paper or as

was above 100,000 metric tons in the 1960s[40] but collapsed by two thirds, to a level of around 33,000 metric tons in the second half of the 1980s, as shown in table 6. The table also shows that total sisal exports have been relatively stable at a level of about 21,000 metric tons since 1985, with the notable exception of 1987 and 1988, when exports were about 20 per cent higher. Moreover, the table mirrors a continuous shift from the exports of fibre to those of twine.

Table 7

Sisal production, exports and prices, 1984-1992
(production and exports in thousands of metric tons, prices in US$ per metric ton c.i.f. European ports)

	1984	1985	1986	1987	1988	1989	1990	1991	1992[1]
Tanzanian production	37.9	31.9	24.8	32.8	33.3	31.9	33.4	36.0	34.0
Tanzanian exports									
- fibre2	21.7	12.5	10.3	11.2	9.8	8.1	6.2	3.8	3.0
- twine	17.7	10.3	10.2	13.2	16.2	14.0	15.5	17.2	18.5
total	39.4	22.8	20.5	24.4	26.0	22.1	21.7	21.0	21.5
Total exports from producing countries									
- fibre	165	151	128	117	135	152	120	87	89
- twine	179	145	116	111	133	149	115	123	115
total	344	296	244	228	268	301	235	210	204
Prices									
- 3L fibres	651	619	613	612	643	710	735	667	519[3]
- UG fibres	583	525	513	512	540	651	705	639	489[3]

[1] = preliminary; [2] = note that these data are not consistent with those reported in table 2; [3] average January to August

Source: FAO Committee on Commodity Problems - Intergovernmental Group on Hard Fibres: Statistics on Sisal and Henequen, Rome, various issues.

98. Three main factors explain these developments in Tanzanian sisal exports. First, in response to the declining consumption of sisal, the EEC restructured its sisal industry causing the closure of several ginneries in France, Italy and the United Kingdom in the second half of the 1980s. The closure of these ginneries allowed the United Republic of Tanzania to import second-hand processing machines relatively cheaply to rehabilitate its domestic plants. In order to attract the investment needed to revamp activity in the domestic sisal sector, the Government started in 1987 to privatize some of the State-owned sisal

---

a mix with wood pulp in paper making and recycling [United Nations Food and Agriculture Organization (FAO): Committee on Commodity Problems - Intergovernmental Group on Hard Fibres: Report on the sessions of the Intergovernmental Group on Hard Fibres, Rome, various issues]. Although the longer term market potentials for these alternative uses have yet to be evaluated, it seems that sisal could have both technical and economic advantages over competing materials for these applications.

[40] African Research Bulletin, 16 July - 15 August 1992, p. 10929.

estates, hitherto managed by the Tanzania Sisal Authority (TSA). By 1986, the share of sisal fibre output from TSA had declined from over 66% in the 1970's to between 40 and 45%, when the national output was also lowest. Using STABEX funds, foreign commercial loans and a grant from the German Government, substantial investments in sisal rehabilitation were made after 1986 by private sector producers, particularly Amboni Limited, Kugongo Estates and Ralli Estates (all foreign-owned) as well as TSA. However, the fall in sisal prices in 1991/92 (see below) makes on difficult to assess the impact of this investment on rehabilitation. Although the reversal of the price trend on the world market in the second half of 1992 does not seem to have led to an immediate supply response, growers could be more confident in continuing with replanting programmes.

99. TSA was also dominant in sisal processing through its subsidiary company, Tanzania Cordage (TANCORD), whose spinning capacity was 15,000 tons per annum compared to the total national capacity of about 33,000 tons. However, TANCORD's actual output has rarely exceeded 8,000 tons per annum since the mid-1980s. On the other hand, the Swiss company, Amboni Ltd, has consistently expanded its output of sisal fibre and processing capacity, reaching a share of 45 per cent and 34 per cent, respectively, of the country's production of sisal fibre and products by 1992. Except for the second-hand machinery acquired by Amboni Ltd and TANCORD, little new investment has been made in sisal processing even after the Government raised the level of foreign exchange retention to 100 per cent in August 1991.

100. Second, the effects of price developments in world sisal trade were favourable to the restructuring of the Tanzanian sisal sector. The maintenance of world sisal production at levels well above the declining demand caused sisal prices to fall sharply between 1980 and 1986 (see table 2[41]). A fall in world sisal exports caused by production declines due to prolonged droughts in Brazil and harvesting problems in Kenya, the adoption of stricter measures by the Brazilian government to enforce the official export minimum price as well as problems with maritime transport of sisal twine from Brazil to western Europe resulted in an increase in world market prices for sisal of about 50 per cent between 1987 and 1990 [ibid.][42]. Tanzanian sisal exporters were able to increase their earnings substantially during this period as the United Republic of Tanzania was the only one among the major producing countries that increased rather than decreased exports. As the other countries reversed their production and export trends, a situation of oversupply on the world market started to prevail again in 1990, leading to a steep decline in sisal prices between summer 1991 and end 1992. It would therefore appear that a substantial part of the increased export earnings for sisal twine and ropes between 1987 and 1990 can be explained by this rise in prices, and, in particular at the beginning of this period, the partial replacement of traded sisal twine from Brazil and Kenya by that from the United Republic of Tanzania.

101. Third, the maintenance of high export earnings despite falling sisal prices in 1991 and 1992 can be attributed to the EEC's partial replacement of sisal

---

[41] See also UNCTAD: UNCTAD VIII Analytical Report by the UNCTAD Secretariat to the Conference, Geneva, 1992, p. 284.

[42] See also FAO Committee on Commodity Problems - Intergovernmental Group on Hard Fibres: Statistics on Sisal and Henequen, Rome, September 1988, p. 2.

twine imports from Brazil by those from the United Republic of Tanzania. Part of this replacement is due to the fact that, in response to poor weather conditions and unfavourable prices, fibre extraction in Brazil in 1991 and 1992 was well below that at the end of the 1980s, whereas sisal production in the United Republic of Tanzania increased, with more replantings coming into bearing. Despite the usually better quality of their sisal, Tanzanian exporters sold at prices close to those paid for Brazilian sisal, which caused keen price competition in supplying the European sisal market. In addition, as of February 1991, the EEC raised the import duty on Brazilian sisal twine from 12 per cent to 25 per cent[43], making it very difficult for Brazilian twine exporters to compete successfully with those from the United Republic of Tanzania.

102. Sisal marketing has been left to producers and traders since the early 1980s after the disappointing experience with single-channel marketing through the TSA. Both private producers and TSA have relied on the same traditional export markets, i.e. mainly Europe. In view of the limited demand for sisal fibre, twine and ropes, the sisal growers and manufacturers have been pressing the Government since 1990 to reactivate the Mlingano Sisal Research Unit at Tanga as a means of assuring low costs, high yields, and premium quality as well as facilitating the development of new products which may have better market prospects. The Government pledged to allocate more resources to sisal research but no concrete action has been taken owing to budgetary constraints.

103. In conclusion, Government action designed to restructure the domestic sisal sector and to increase export earnings was strongly supported by exogenous factors including the increase in world market prices for sisal between 1987 and 1990 and the imposition of a higher import duty on Brazilian sisal twine by the EEC. It would, however, appear that these exogenous factors were short-lived and that it may be very difficult to maintain Tanzanian sisal export revenues at the level obtained in the late 1980s.

D. Cotton and textiles

104. Although cotton is one of the country's traditional export items and textiles are non-traditional exports, the two sectors are discussed together. The reason for this is that cotton being an input for the textile industry, developments and bottlenecks in this sector have had a major impact on production and exports in the textile sector. Cotton has been one of the country's leading cash crops. Cotton seed production has fluctuated significantly in the last few years because of farmers' reponsiveness to producer prices for cotton and alternative crops, in particular rice [see text box 2]. Table 7 shows the development of cotton production and producer prices. Producer prices have been fixed by the Tanzania Cotton Marketing Board (TCMB).

105. The relatively low share of export receipts actually accruing to the farmers raises the question of how cotton export proceeds are distributed within the present single-channel marketing system. As shown in table 8, cotton exports under the present marketing system are uncompetitive and financially unsustainable and the main problem is ginning.

---

[43] This action was motivated by the fact that the Brazilian Government decided to reimburse exporters for the tax levied on sisal exports.

Text Box 2

The substitution between cotton and rice production

The evolution of cotton and rice production in the late 1980s is a good example of the cross-price responsiveness of farmers. A typical cotton farmer grows both cotton and rice as cash crops. Weather, the marketing system and realized prices are major factors in determining the size of areas chosen for rice and cotton cultivation. In 1986, the Government considerably increased the producer prices for cotton (see table 7) and, at the same time, liberalized the domestic marketing of rice within the overall framework of liberalizing the domestic grain marketing system. Tables 7, 8 and 9 show that initially the increase in cotton producer prices provided a strong incentive to farmers for cotton production, thus reversing the trend of declining cotton output. However, the cotton marketing system was not liberalized, with the result that inefficiencies in the single marketing system, cotton ginning and transportation caused cotton buyers to delay their purchases, often for several months. The fact that rice marketing had been liberalized and private traders paid cash when they purchased rice offered farmers a relatively better outlet for rice. In response to this, they substituted the cultivation of cotton with that of rice which, together with delayed rains, led to the sharp drop in cotton production and the substantial increase in rice output in 1989 and 1990. Table 7 shows that in the 1990/91 season producer prices for cotton were again sharply raised, renewing the incentive for cotton cultivation.

Table 9
Rice production, 1985-1992
(thousands of metric tons)

Year (July-June)	85/86	86/87	87/88	88/89	89/90	90/91	91/92
Rice production	427	547	644	615	720	740	664

Source: FAO

Table 7

Cotton seed production and producer prices, 1985-1992

Year	Cotton seed production, ('000 m tons)	Average producer prices (Tsh/kg)		
		Actual	Constant (1987-90)	% of Export Price (fob)
1985-86	108.2	12.88	22.29	165
1986-87	216.9	16.82	21.99	111
1987-88	253.7	19.45	19.45	51
1988-89	191.8	22.35	17.45	39
1989-90	112.5	28.00	18.22	40
1990-91	147.0	41.00	23.20	37
1991-92	262.6	70.00	31.77	55

Source: World Bank (1992, p. 69)

Table 8

Distribution of cotton export costs within the single-channel marketing system, as a percentage of export proceeds realized

Farmers' remuneration	56.0
Primary buying cost	2.8
Unions' cost	24.3
Loss and levy	1.2
Ginning cost	49.5
Export marketing cost	31.0
Total domestic cost of export, as share of export value realized	164.8

Source: World Bank (1992, p. 73)

106. All ginneries are at present owned by the regional cooperative unions, with an effective ginning capacity utilization of 56.3 per cent [World Bank (1992, p. 70)]. The low level of ginning activity has caused cotton seeds to stay in storage for up to nine months, with the result that cotton producers have no need to grow more seed. Capacity utilization is low because most of the ginneries are very old and require major rehabilitation. However, the cooperative unions have not been able to finance the rehabilitation of ginneries because of the hard budget constraint imposed on parastatals. Given the unions' large stock of accumulated debt, they had neither enough liquidity nor adequate access to credit for rehabilitation and efficient management of the ginneries. Donors have however provided some funding for this purpose. The Netherlands assisted the Tanzanian cotton sector for 11 years in a US$ 100 million project designed to rehabilitate ginneries and increase ginning capacity. Although the capacity of ginneries was raised by 200,000 bales under the project, only about two thirds of the bumper harvest of 1992 could be ginned because of poor management and the lack of spare parts. The project was discontinued in summer 1993 because of the slow progress made in liberalizing the sector.[44] In May 1993, it was announced that the African Development Bank would give a loan of US$5 million to finance the rehabilitation of ginneries.[45]

107. Privatization of the ginneries, which would have alleviated the constraint that the cut in government expenditure caused for the ginneries, has failed to materialize so far. An attempt to attract private investment to cotton ginning was made in 1992. Cargill Tanzania Ltd negotiated with the Government to become a partner in a joint venture. The Government abruptly terminated the negotiations because Cargill kept adding conditions, probably because of a lack of transparency in investment procedures.[46] This failure also indicates the difficulty of attracting private investment to the highly indebted ginneries.[47]

---

[44] Marchés Tropicaux, 2 July 1993, p. 1718.

[45] The Economist Intelligence Unit, Country Report, 3rd quarter 1993, p. 21.

[46] This statement is based on an interview with a Government official.

[47] More recently, the Government revived negotiations on privatization and joint ventures with major trading companies, including Cargill, in order to attract finance for the rehabilitaion of ginneries.

108. Between 1976 and 1984, the Tanzania Cotton Authority (TCA) was the sole buyer and seller of cotton seed and lint in the country. Cotton marketing was restructured with the reintroduction of cooperative unions in 1984/85. The cooperative unions became responsible for purchasing cotton seed from farmers and for ginning, while the TCMB, replacing the TCA, became responsible for domestic and export marketing. In 1990, the unions were made the owners of cotton from the point of purchase from the farmers to the point of sale, and the functions of the TCMB changed. The TCMB became the statutory agent for the marketing of cotton lint on behalf of the cooperative unions and the regulator of cotton marketing. Cotton lint is marketed for both the domestic and external markets through periodic tenders held on behalf of the unions. The TCMB also regulates and controls the quality of lint.[48]

109. In conclusion, the increased supply of cotton seed in the 1991/92 crop season suggests that the cotton seed sector has a large growth potential and that production could be raised further when adequate incentives are in place. However, substantial investment for rehabilitation of the ginneries is required to make the cotton sector competitive and financially viable. The provision of the necessary resources for this investment seems to be contingent on the successful privatization of the ginneries. The ginneries' large stock of accumulated debt has been a major obstacle to privatization. Privatization has also proved to be difficult as long as producer prices are fixed officially. The move to a multi-channel marketing system in 1994 will open the way to private-sector activity in the cotton sector. However, in the present state of the formal financial sector, the design of the planned marketing system in such that problems may arise, in particular with respect to the funding of research and of input credits to farmers. It therefore seems that the failure to address very basic issues in the cotton sector has been a major constraint in the

---

[48] In August 1993, the TCMB Act was further amended, providing for a multi-channel marketing system at all levels of crop handling. The actual implementation of this amendment was expected to start in July 1994. The reforms aim at making cotton processing and marketing more efficient by providing for competition between primary societies, the cooperative unions, the TCMB and the private sector with a view to mobilizing private capital, both domestic and foreign, for urgently needed investments. Under the planned marketing system, the TCMB's sole responsibility will be to regulate the cotton industry, i.e. to collect and disseminate information, to control quality of cotton seed and lint, to administer the export marketing of lint, etc. The Board will also be allowed to purchase, gin and export lint. Ownership of the ginneries will be liberalized and those owning ginneries, i.e. the cooperatives and the private sector, will automatically receive licences to buy, process and market cotton lint and seed domestically and internationally. The ginneries are to emerge as the "focal point" for the development of cotton production. They will hence also be involved in the distribution of quality seeds, inputs and extension services to farmers. Problems may arise with respect to the provision of credit to farmers for input financing. Input credits used to be provided by the cooperative unions which, under the single-channel marketing system, could in principle be sure that the produced cotton would be sold to them and could hence be used to pay back the loan. It is, however, not clear that the unions will continue to issue credits under a liberalized system or that the fragile banking system will be able to take over this function. Problems are also likely to arise with respect to research funding. Given that the TCMB has on average contributed about 70 per cent of the total funding for research in the cotton sector [TCMB (1993, p. 8)] and that with the planned marketing reform its role will be reduced to that of being just one of the many companies active in the cotton sector, finding financing for research in the cotton sector as a whole may become very difficult.

rehabilitation of ginneries and the efficient functioning of cotton marketing. This in turn has had a detrimental impact on the domestic textile industry.

110. The Tanzanian textile industry was set up after independence as an import substitution sector. Exports of cotton yarn and grey fabrics started only in 1983. In the beginning, most exports went to neighbouring markets (Botswana, Burundi, Malawi, Rwanda, Swaziland, Zambia and Zimbabwe), but problems arose because of the very restrictive import policies or serious foreign exchange problems in these countries. Exporters therefore shifted their attention towards the EEC market. It seems that these exports have a high potential because of the fine quality of domestic cotton, the relatively large production base of textile manufacturing, and - because it is a signatory to the Lomé Convention - the country's preferential access to the EEC market. A look at the development of actual earnings from textile exports [see table 1] suggests that the performance of this sector has lagged far behind its potential.

111. About 100 firms are involved in different forms of textile-related manufacturing in the United Republic of Tanzania. While about 90 per cent of these firms are privately owned, there are about as many public as private firms among the 20 main textile producers. Table 10 suggests that the industry's capacity utilization was almost halved between 1981 and 1986 and has since been between 25 and 29 per cent. There is also evidence that the average performance of the public subsector was higher than that of the private subsector up to 1985, but that since then the private subsector has on average performed much better. There are, however, a number of public firms that have outperformed private ones [see Mbelle (1992, p. 191) for evidence]. Output declined between 1980 and 1984 and has since been at about 2/3 the level at the beginning of the 1980s.

Table 10

United Republic of Tanzania: capacity and output in the textile industry, 1980-1990

Year	Capacity						Output		
	Total square metres [mn]	of which public	% public	Utilization			Total square metres [mn]	of which public	% public
				industry	public	private			
1980	200	145.6	72.8	46.5	57.6	16.9	93.0	83.8	90.1
1981	200	145.6	72.8	48.0	55.6	27.8	96.0	80.9	84.3
1982	200	145.6	72.8	43.0	47.4	31.3	86.0	69.0	80.2
1983	200	145.6	72.8	30.0	34.4	18.2	60.0	50.1	83.5
1984	200	145.6	72.8	28.5	33.0	16.5	57.0	48.0	84.2
1985	200	145.6	72.8	26.2	27.1	25.0	66.0	39.4	59.7
1986	252	183.1	72.7	24.6	23.3	28.2	62.0	42.6	68.7
1987	252	183.1	72.7	29.0	15.9	63.7	73.0	29.1	39.9
1988	252	199.0	79.0	25.8	13.7	71.1	65.0	27.3	42.0
1989	252	199.0	79.0	28.2	16.2	72.8	70.9	32.3	45.6
1990	252	199.0	79.0	25.0	16.3	58.1	63.3	32.5	51.3

Source: Mbelle (1992, p. 188 and p. 190)

112. Before the mid-1980s, domestic textile manufactures constituted a large part of the domestic textile market. However, with import liberalization, especially through the establishment of the own-funds scheme in 1984, imported textiles have assumed great prominence, with second-hand clothes, popularly known as "mitumba", dominating the domestic market, as evidenced by table 11.

Table 11

Structure of textile consumption in the United Republic of Tanzania, (millions of square metres of cloth)

Type of product	1985	1988-1990
1. Local manufactures	61	43
% of total	49	10
2. Imported manufactures	63	383
% of total	51	90
of which "mitumba"	36	287
% of total	29	67
Other textile imports	27	96
% of total	22	23

Source: Mbelle (1992, p. 189)

113. It therefore appears that the major reasons for the increase in textile exports between 1987 and 1988 were to sell the output which could no longer be sold on the domestic market, and to export at all costs to obtain the necessary foreign exchange to import spare parts in order to maintain production viability. The major reasons for the stagnation of export earnings from textile exports in the period between 1988 and 1992 seem to be problems in production, in particular in cotton ginning. Exporters have also faced some problems on European markets regarding the quality of yarn and printed cloth. For example, the BET organized three marketing missions to Europe, North America and southern Africa between 1991 and 1993, which led to trial orders worth US$ 24 million. However, exports to these markets could not be maintained because of quality problems.

114. A major reason for the problems in maintaining export markets seems to be a widespread lack of information on an ongoing basis regarding the required design, standards and product developments on European markets. Market information seems to be lacking despite BET's marketing missions and the fact that the National Textile Corporation (TEXCO), the government holding company for the 14 parastatals in the textile industry, and the Textile Manufacturing Association are mandated to provide market intelligence for the public and private subsectors, respectively. Another factor contributing to this situation has been the fact that the services of the Tanzania Bureau of Standards (TBS), a standards body located in Dar es Salaam and recognized for both the domestic and international markets, have not been widely used. The business community feels that the time and fees involved in using the TBS act as a disincentive to firms outside Dar es Salaam.

115. The main factors explaining the poor performance of the Tanzanian textile industry since the mid-1980s include "unfair competition" from imports and rapid increases in the cost of production inputs. Domestic textile manufacturers have pointed to "unfair competition" from textile imports because the volume of excise tax paid by the local textile manufacturers exceeds that raised from textile imports, even though the market share of local manufactures is only 10 per cent. The low indicator value chosen for valuation by the Customs Department is considered to be the basic cause of the low duties collected on textile imports.[49] Another reason is tax evasion. The decision, taken in 1991, to make own-funded imports subject to pre-shipment inspection and to impose specific minimum rates for products such as textiles (the latter measure was abolished in 1992) alleviated this problem for mainland Tanzania. The business community, however, alleges that Zanzibar does not apply similar controls to textile imports, thereby allowing importers to use Zanzibar for getting textiles virtually tax free into mainland Tanzania.[50] Competition from cheap imports has contributed to the drop in capacity utilization over the last few years, raising fixed costs per production unit and contributing to the lack of capital for investment to upgrade production technology.

116. It would appear that, in addition to alleged smuggling, import liberalization in the absence of a sufficiently large depreciation of the real exchange rate was a major factor in the rise of the competition from cheap textile imports. Table 3 (see chapter III.B) shows that the shilling remained considerably overvalued in real terms despite the successive devaluations. Standard macroeconomic theory, in fact, suggests[51] that import liberalization, if unaccompanied by offsetting macroeconomic policy, will generate trade deficits because it reduces domestic prices of imports, thereby raising import demand and posing problems of competitiveness to domestic production.

117. Rapid increases in the cost of both imported and local production inputs have also been translating into higher prices of final output and rendering locally produced textiles uncompetitive. The basic reason for this is the cumulative devaluation of the shilling, combined with the fact that even domestically produced cotton is priced in US dollars. This has meant, for example, that 1 kg of imported cloth costs US$ 0.50, whereas 1 kg of domestically grown cotton lint costs US$ 1.34.[52] The economic validity of the current strategy in the cotton and textile sector is therefore questionable.

---

[49] While the indicator values of imported textile fabrics are internationally known to be US$ 1.70 (cif Dar es Salaam) for one metre of "khanga" fabric and US$ 0.75 for one metre of "kitenge" fabric, the Tanzania Customs Department uses US$ 0.60 for one metre of "khanga" and US$ 0.20 for one metre of "kitenge" [Mbelle (1992, p. 183)].

[50] Confederation of Tanzania Industries (CTI): "A Case for Protection of Local Industries, a CTI Policy Paper", in: Change, volume 1, issue 2, February 1993, p. 20.

[51] In a monetary model of the balance of payments, a decline in domestic prices of imports, e.g. as a result of import liberalization, reduces the domestic price level. The larger the share of imports in GDP, the more the price level declines. Assuming unchanged money demand, this price level decline raises the real value of money balances and thus leads to an outflow of reserves. With a convertible currency and a flexible exchange rate, this outflow of reserves leads to a depreciation that removes the rise in competitiveness of imports.

[52] According to an official of TEXCO, the holding company of State-owned textile firms.

Rising producer prices caused by the devaluations and dollar-pricing of cotton have acted as a production incentive for cotton farmers. On the other hand, as none of these benefits have accrued to cotton manufacturers, the domestic market for cotton has shrunk, with the result that stocks of unsaleable cotton have accumulated. This may eventually counteract the incentives provided by higher producer prices.

118. Efforts made by manufacturers to improve production efficiency were unable to keep pace with cost increases. This seems to have been the case in particular in the public subsector, probably owing to the long period of its quasi-monopoly in the sector until 1984, and the fact that whatever the industry produced was sold irrespective of quality and price, given that remunerative prices were guaranteed by the cost-plus pricing method and sanctioned by the Price Commission. More recently, however, the public subsector started a modernization programme, introducing electronic quality checking in cotton yarn production for export. Expansion of this programme to include all yarn production will contribute to raising the quality of textiles, and thus enhance export possibilities.

119. To conclude, it appears that the stagnation in earnings from textile exports has mainly been caused by, first, the fact that domestically produced textiles have become uncompetitive, following the sharp increase in textile imports in the aftermath of import liberalization without sufficient exchange rate adjustment, which undermined the domestic market for the local industry; secondly, constraints in cotton ginning, which led to a shortage of cotton inputs of sufficient quality; and thirdly, the cumulative devaluation of the shilling, which has made production inputs more and more expensive.[53] The sharp drop in sales on the domestic market and increasing input costs, combined with the inefficiencies of the financial market, have made it difficult for manufacturers to obtain enough working capital to purchase sufficient quantities of cotton. As a result, the output offered on the market was often erratic and of low quality, generally too small for large-scale export activities, and too expensive to be competitive on world markets.

E. Hides and skins and leather

120. The United Republic of Tanzania is an important producer of hides and skins. According to the BET, export earnings from hides and skins increased sharply between 1988 and 1990 going from T sh 299 million to T sh 877 million whereas the country's annual production is estimated to have been relatively stable at 1.6 million cattle hides, 2.2 million goatskins and 1 million sheepskins.[54] This suggests that a very sizeable part of exports used to be done through unofficial channels and that at the end of the 1980s some progress was made in attracting trade into the official trading channel.

121. In fact, as the official trading channel had basically collapsed by the end of the 1980s, the hides and skins and leather sector was among the first ones in which marketing was liberalized. The sector consisted of three tanneries which were all entirely State-owned and managed by the parastatal

---

[53] Other constraints that the textile industry has faced include [in decreasing order of importance, according to Mbelle (1992, p. 197)] lack of foreign exchange for the purchase of raw materials and spare parts, transport problems, and interruptions in water and electricity supply.

[54] Statement based on information obtained in an interview with a BET official.

Tanzania Tanneries. These tanneries used to buy from local butcheries or agents. They bought all hides and skins provided to them irrespective of their quality, in an attempt to prevent smuggling. The result of this policy was that the high-quality hides and skins were often smuggled abroad and the tanneries were considered a buyer of last resort for low-quality hides and skins. The tanneries exported semi-processed leather through brokers to western Europe, in particular Italy. Exports declined after 1977 when the severe shortage of foreign exchange in Tanzania led to a lack of spare parts. The devaluations of the shilling after 1984 made important production inputs such as chemicals and energy much more expensive. These two factors contributed to an increase in production costs, with the result that Tanzania Tanneries could not maintain export activities after 1989 when export revenues declined with the beginning of the recession in Europe. Domestic sales also declined sharply as the domestic leather market suffered very seriously from the liberalization of shoe imports. This caused a large part of domestic shoe manufacturering capacity to close down. A further factor contributing to the breakdown of the official trading channel in the 1980s was that the parastatal was not financially viable. Given the accumulated outstanding debt of parastatals and the Government's intention to manage these companies on a commercial basis, no funds for rehabilitating the production and trading structure were available.

122. Virtually all recorded exports in this sector are now made by Africa Trade Development (ATD), a private company located in Dar es Salaam. This company has already bought two of the three tanneries and is in the process of buying the third one. The company has been operating very successfully since it started business in 1987, increasing its turnover from US$ 100,000 to US$ 5,000,000. ATD exports a wide selection of hides and skins as well as some leather, mainly to Europe and a few countries in the Middle East. The company has identified markets by attending fairs and succeeded in maintaining these markets by providing a reliable, good-quality supply. The company is planning to export only leather in the future. Foreign technicians and consultants will be hired to apply the most recent leather-processing necessary to compete successfully on the world market.

123. Although the hides and skins and leather sector has been of minor importance with respect to the country's total export earnings, developments in this sector are interesting because the case of ATD can be considered as characteristic of the conditions that had to be met for an exporter of non-traditional commodities to be successful in the United Republic of Tanzania in the second half of the 1980s. According to the company manager, the key to his company's success was the fact that his family had been involved in the leather sector for generations. This tradition provided the necessary knowledge and skills in both processing and marketing. Family savings had been a very important source of working capital. Another crucial ingredient for success was that the company had managed to compete successfully with smugglers in the procurement of hides and skins. This was achieved by setting up a network of procurement branches in villages and by providing price incentives, e.g. by offering pre-payment. The latter also contributed to quality improvement. Obtaining input of adequate quality was often a problem since it is a common practice among peasants to burn very big brandmarks on the animals' back to prevent theft. This eliminates a big part of the raw material from processing. Quality was also raised by the company's policy of basing procurement on a made-to-order basis, in addition to selecting from what was offered to the company.

124. ATD points out that government support services have been completely absent in the last few years. On the other hand, the company, considers the own-funds import scheme, the export retention scheme and especially the export credit guarantee scheme as having been very supportive for its export activities. The BOT made major efforts to persuade the National Bank of Commerce that the ATD is a reliable business partner and that the Bank should give ATD access to the credit guarantee scheme. The BET had, however, not been helpful so far. The company also reports that apart from the common problems with transportation, commercial banks, electricity supply and bureaucratic procedures, the frequent changes in the taxation of chemicals made planning very difficult.

References

Amani, H.K.R. (1992): "Agricultural reform in Tanzania: evolution, performance and future policy issues", in: Bagachwa, M.S.D., A.V.Y. Mbelle and B. van Arkadie (eds) (1992): Market Reforms and Parastatal Restructuring in Tanzania, Economics Department and Economic Research Bureau, University of Dar es Salaam, Dar es Salaam

Bagachwa, M.S.D. (1992a): "Background, evolution, essence and prospects of current economic reforms in Tanzania", in: Bagachwa, M.S.D., A.V.Y. Mbelle and B. van Arkadie (eds) (1992): Market Reforms and Parastatal Restructuring in Tanzania, Economics Department and Economic Research Bureau, University of Dar es Salaam, Dar es Salaam

_____ (1992b): "The challenges and potentials of the new investment promotion policy", in: Bagachwa, M.S.D., A.V.Y. Mbelle and B. van Arkadie (eds) (1992): Market Reforms and Parastatal Restructuring in Tanzania, Economics Department and Economic Research Bureau, University of Dar es Salaam, Dar es Salaam

_____ (1993): "An agenda for sustainable growth of non-traditional exports in Tanzania", Paper presented at the workshop on "Non-traditional Exports: Constraints to its Growth and Solutions", Dar es Salaam, 28 April 1993, mimeo

Bank of Tanzania (1993): "Small-scale mining activities in Tanzania: an overview on gemstones", mimeo

Bevan, D., P. Collier and J.W. Gunning (1993): Agriculture and the Policy Environment: Tanzania and Kenya, OECD Development Centre, Paris

Board of External Trade (1993): "Export finance and export incentive schemes", mimeo

Bol, D. (1993): "Non-traditional exports in Tanzania: trends and prospects", Paper presented at the workshop on "Non-traditional Exports: Constraints to its Growth and Solutions", Dar es Salaam, 28 April 1993, mimeo

Business Guide to Tanzania 1992-1993, Initiative Marketing International, Bristol

Chachage, S.L.C. (1993): "New forms of accumulation in Tanzania: the case of gold mining", in: Raw Materials Report, vol. 9, No. 2, pp. 2-13

Collier P. and J.W. Gunning (1991): "The liberalization of price controls: theory and an application to Tanzania", in: Chhibber, A. and S. Fischer (eds) (1991): Economic Reform in Sub-Saharan Africa, World Bank, Washington D.C.

International Trade Centre - UNCTAD/GATT (ITC) (1993): "The United Republic of Tanzania: follow-up at enterprise level of ITC market information amongst rural producers of horticultural products"; in "SADC: Export Development and Promotion", ITC/DTC/93/1894, 20 July 1993, Consultant Report, Geneva, mimeo

Kahama, C.G. (1993): "Interview", in: Change, vol. 1, issue 2, pp. 23-25

Mbatia, K.S. (1993): "Constraints to the growth of non-traditional exports, with particular emphasis on incentive schemes", Paper presented at the workshop on "Non-traditional Exports: Constraints to its Growth and Solutions", Dar es Salaam, 28 April 1993, mimeo

Mbelle: A.V.Y. (1992): "Restructuring the public textile sector in Tanzania", in: Bagachwa, M.S.D., A.V.Y. Mbelle and B. van Arkadie (eds) (1992): Market Reforms and Parastatal Restructuring in Tanzania, Economics

Department and Economic Research Bureau, University of Dar es Salaam, Dar es Salaam

Ministry of Agriculture (1992a): Summary Review of Agricultural Marketing, Marketing Development Bureau, Dar es Salaam

_____ (1992b): A Study on Exports of Non-Traditional Agricultural Commodities, 1980-1991, Marketing Development Bureau, Dar es Salaam

Ngogo, D.A. (1993): "Government policies on the promotion of non-traditional exports: assessment and agenda", Paper presented at the workshop on "Non-traditional Exports: Constraints to its Growth and Solutions", Dar es Salaam, 28 April 1993, mimeo

Planning Commission (1990a): National Investment Promotion Act, Dar es Salaam

_____ (1990b): National Investment (Promotion and Protection) Act, Dar es Salaam

Ruparella, B.K. (1993): "Constraints to the growth of non-traditional exports and solutions: a view from an exporter", Paper presented at the workshop on "Non-traditional Exports: Constraints to its Growth and Solutions", Dar es Salaam, 28 April 1993, mimeo

Tanzania Cotton Marketing Board (1993): "Effects of cotton marketing reforms on production and export performance", mimeo

The Economist Intelligence Unit: Tanzania Country Profile, various issues, London

World Bank (1991a): Tanzania Economic Report: Towards Sustainable Development in the 1990s, Volume 1: Main Report, Washington D.C.

_____ (1991b): Tanzania Economic Report: Towards Sustainable Development in the 1990s, Volume 2: Background Papers, Washington D.C.

_____ (1992): "Joint Government of Tanzania/World Bank Agricultural Sector Review, Preliminary Findings", mimeo

_____ (1993): World Development Report, Washington D.C.

Persons interviewed in Dar es Salaam and Moshi, April 1993

Dar es Salaam

Bank of Tanzania
K. S. Mbatia, Head, Export Promotion Department
B. N. Msami, Foreign Manager, Foreign Department
A. V. Haule, Import Licensing Department

Board of External Trade
M. K. Mwandoro, Director General
A. K. Msilaji, Senior Trade Information Officer
T. Asfaw, Senior Trade Promotion Adviser

Ministry of Agriculture
A. Banda, Head, Market Development Bureau

Planning Commission
N. Mlolwa, Director
J. Doriye, Deputy Principal Secretary

Tanzania Customs and Sales Tax Department
A. I. Kange, Commissioner

Investment Promotion Centre
F. Mbuka, Deputy Principal Secretary

National Textile Corporation (TEXCO)
S. H. Nkya, General Manager

Africa Trade Development (ATD)
R. Sakari, General Manager

Chamber of Commerce
M. M. Mutungi, Chairman

UNDP
D. Maharaj, Programme Officer

World Bank
R. Southworth, Senior Operations Officer

Delegation of the Commission of the European Communities
K. Harbo, Head of Delegation

Societé Générale de Surveillance (SGS)
J. Rijken, Managing Director

Moshi

Sunripe Kilimanjaro Ltd.
S. Shah, General Manager

Tanzania Tanneries
B. N. Kiyuga, General Manager

Tanzania Gemstone Industries, Ltd.
E. C. Makwabe, Marketing Manager

Imara Wood Products Co. Ltd.
J. F. Muindi, General Manager
M. T. Mkwembe, Chief Accountant